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With The Editors

A Look Under the Hood

General Motors gave its stockholders a 71-page report on last year's operations, one of the most complete and informing of any issued by a private enterprise. Yet with the release of the Federal Trade Commission's study of the automobile industry we learn facts that have long been subject to guesses of doubtful accuracy, facts that will from now on play an important part in judging the future of the automobile business or of individual companies engaged in it.

One of the first points to catch the eye is a comparison of profits per car over the four years 1934 to 1937. Domestic sales of Chevrolets averaged $46 profit per car, Plymouths $48, and Fords $6 per car. There may be danger here that prospective buyers seeing the figures will conclude that a Ford must necessarily be the best bargain because its maker accepts smaller profits. It is very likely, though, that the persons who are interested in the report will be sufficiently familiar with business practices to avoid any such naive conclusion. If they follow the industry at all they will know that Ford has had trouble retaining anywhere near his share of sales totals and has been squeezed more than his competitors by rising costs and sluggish retail prices.

In the last of the four years, Ford lost $5 per car, Chevrolet netted $41 and Plymouth $49. Plymouth's costs rose $12 on each unit over the four years, while its selling prices rose $28, giving it an increased margin of $16 in addition to the greater volume which was itself the cause of holding the cost rise within moderate bounds. Chevrolet did not fare so well, raising its average price $34 but experiencing a $42 jump in unit costs. Ford's costs were up almost as much, $35 per car, but its selling prices were lifted only $6 between 1934 and 1937, so that its profit margin disappeared entirely.

The F T C figures are on a different basis from the reports of each company to stockholders, but they show clearly certain previously assumed trends within individual enterprises. General Motors, for instance, has come to depend more and more on products other than automotive for its profits. In 1928 these divisions contributed slightly over 12% of total earnings; in 1937 almost 28%. Automotive accessories were profitable in each year of the depression, as they were for Ford also. Chevrolet and the Fisher body division were the other lines that helped General Motors profits uninterruptedly, while the remaining automobile divisions ran into deficits in one or several fairly recent years. The report will bear much further study, but it is worth while even for a cursory reading. More like it will be excellent investments for Government funds and more helpful to stockholders than even the most complete corporate statements can be expected to be.

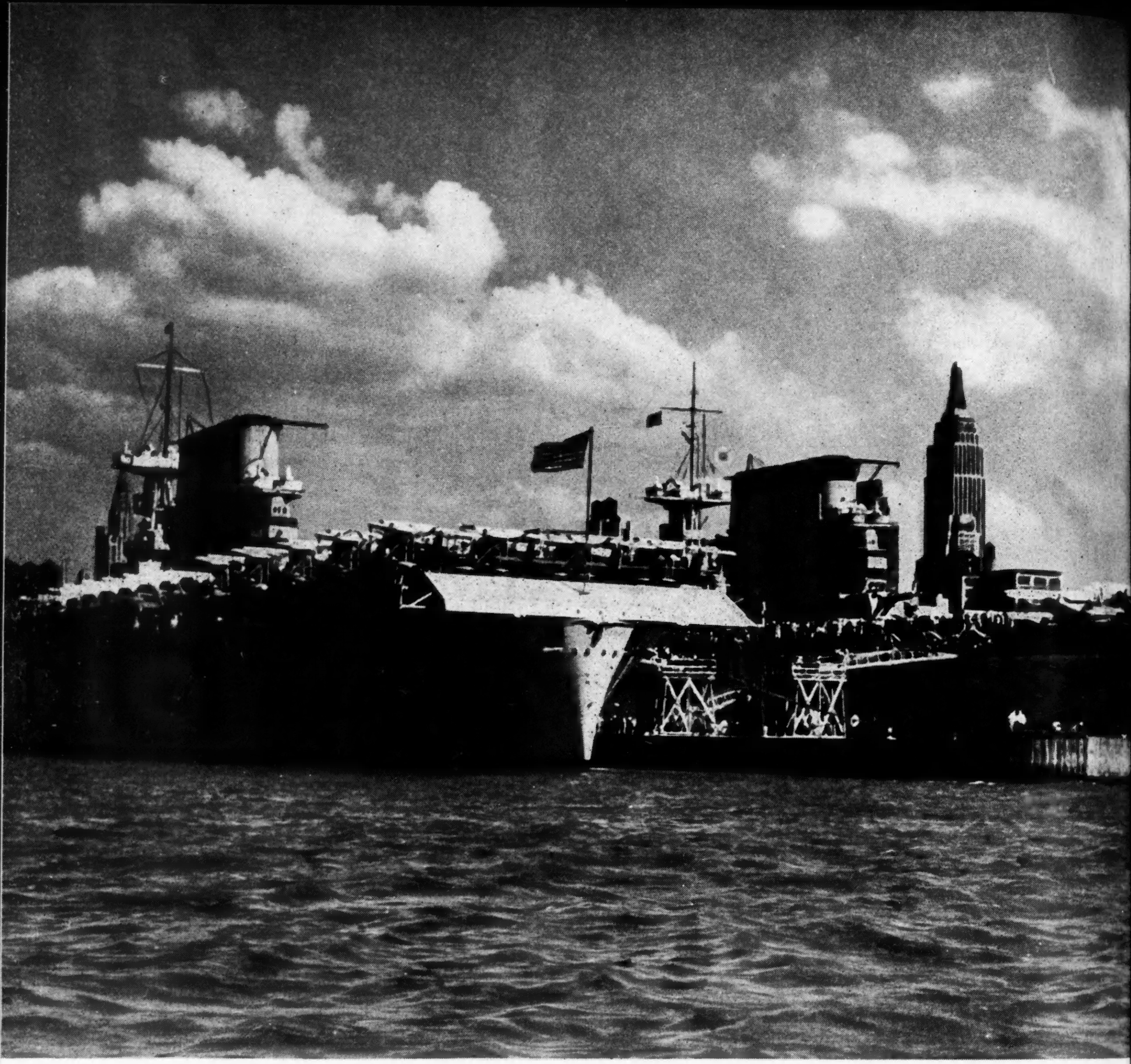
★ ★ ★ **COMING FEATURES OF IMPORTANCE** ★ ★ ★

Appraisal and Special Dividend Forecast for All Leading Stocks

July 29 Issue—Aviation, Rails, Utilities, Equipments

August 12 Issue—Motors, Chemicals, Foods, Steels, Tobacco, Movies

August 26 Issue—Building, Metals, Oil, Merchandising

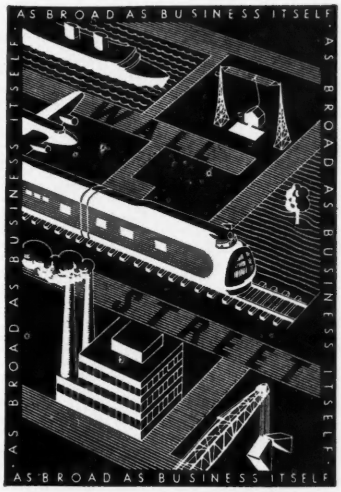


Gendreau

Because of the tremendous size of our economy, the world armament race will produce relatively less stimulation of general business activity here than in major European nations. Certain individual American industries, however, are vitally affected and others would boom in the event of a protracted war. See appraisal of "What World Armament Means to Our Domestic Economy" on page 332.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

Can Britain escape further depreciation of the pound sterling and, if not, how will such depreciation affect our domestic economy?

The British armament program is tending toward important distortions. Her price level has risen briskly and the spread between it and the price level in the United States is now the widest in more than five years. This tends to weaken Britain's competitive position in export trade. Deflationary correctives are not feasible. The eventual alternatives would seem to be either depreciation of the pound or authoritarian regulation of the British economy, including prices and wages. Gradual and moderate depreciation of the pound would not vitally affect the American economy, and major depreciation is improbable unless Britain is plunged into war. In the latter event the impact on our price level could be offset by dollar revaluation or conceivably by inflation of our prices resulting from war demand.

With unfavorable or doubtful price situations in some industries and higher taxes and wage rates in all, can industry avoid a long run deterioration in earning power?

Fears of "profitless prosperity" are seldom more than temporarily justified. While price weakness may become more or less chronic in a few individual instances, its rather widespread prevalence at any one time has always been merely a symptom of cyclical business depression, disappearing with general economic recovery. "Profitless prosperity" was a much-heard complaint in 1934 but was forgotten in the rising business tide of 1935. Present price pressure affecting the steel, oil and liquor industries and some types of building materials is by no means general. As for taxes and higher wage rates, the record of industrial profits under six years of the New Deal shows no convincing evidence of any significant long term deterioration in earning power. Given adequate volume and reasonable time within which to make adjustments, efficient industrial enterprises will continue to develop satisfactory profit margins.

If President Roosevelt wants a third term, what's to stop him? Money talks louder than tradition. Thanks to subsidies and special favors, he has labor, the farmers and the unemployed—plus the Solid South. What can the Republicans do except promise still bigger subsidies and benefits, in which case we would be worse off than now?

All of the President's strong political advantages here cited were with the New Deal in the Congressional election of last November—yet the vote showed a substantial swing toward Republican candidates. This was brought about by a small reduction of New Deal majorities

among some of the pro-Roosevelt groups listed in the above question, notably the farm vote, but mainly by a defection of independent, so-called middle class voters. The latter group, heterogeneous and unorganized, has usually turned national elections and will be the big question mark in any third term campaign. Other things being equal, last November's swing in this group would be carried further in a third term campaign. It is improbable that the President's existing strong hold on the labor, farm and unemployed groups can be increased; and it is possible that even modest percentage defections in the sum total of these votes could prove decisive. Conjecture at this time, however, can only be a guess in the dark. Much will depend on the popular appeal—if any—of the Republican candidate. Still more may depend on the state of business as election time nears.

The Trend of Events

HOW TO BE NEUTRAL . . . Believing a European war would be a calamity for the United States as well as for the world, President Roosevelt puts first emphasis on the objective of preventing such a war. He is convinced that our national interest will be best served by directing this country's moral and economic power toward that objective through "measures short of war." The President's sympathies, of course, are with Great Britain and France and on this an overwhelming majority of our people are with him. In event of war, he wants discretionary power to name the aggressors and to deny them American supplies. As plainly indicated by his attitude and utterances, this means he would advance all possible aid to Britain and France. That might possibly be our best bet and this publication is inclined to feel it probably is—but it would be a gamble, without certainty of preventing war, and it would not, of course, be neutrality.

Discounting the minority in Congress who stoop to play politics with this vital issue, most of Mr. Roosevelt's opponents put first emphasis not on the objective of preventing war but of keeping us out. They believe the powers sought by the President would make our direct involvement more likely if war came despite the Administrations efforts to forestall it. Yet the so-called "neutrality" bill as adopted by the House does not in fact insure neutrality at all. It merely puts an automatic embargo on "deadly weapons." Complete isolation would demand embargo on all exports to all nations involved in war. This would be a major blow to our economic activity and since it would weaken the British-French position it would really work out as aid to the German-Italian combination. In that light it would mean isolation but not neutrality.

In our opinion, the safest policy would be to make all types of American goods available in time of war to all "cash and carry" buyers. That certainly would not increase risk of involvement in hostilities and might lessen it. It is not our problem that, in practical fact, the British and French would have means of getting supplies from us and the Germans and Italians would not. If the Senate adopts the "deadly weapons" embargo which is the chief feature of the House bill that will make no major difference in the world balance of power. In the World War we did not supply our allies with "deadly weapons." On the contrary, the British and French supplied us with the great bulk of all airplanes, artillery and ammunition used by our armies in France. What we supplied was food, materials and equipment—and this is precisely what the British and French will chiefly need from us again if they are drawn into protracted war. Relative to their prospective opponents, they will not be gravely deficient—if deficient at all—in "deadly weapons." Our ordnance and aircraft plants will be put to it for several years to supply the needs of our own expanding armament program.

DOLLAR CONTROL SAVED . . . In the present disturbed state of world affairs, most Americans no doubt approve the President's retention of his "dollar control" powers as authorized by Congress—especially since "dollar control" has long been and remains a complete mystery to the man in the street. For that matter, even the alleged monetary experts differ as to how bad off—or how well off—the country would be were Mr. Roosevelt shorn of his limited power of devaluation and of the Stabilization Fund. With the bulk of the world's gold supply here and more on the way, it is not the dollar that will need defense from attack but the pound.

There are some aspects of the recent fight on this issue that are not agreeable to contemplate. For blatant political log-rolling it has never been excelled. With frank and unashamed gall the silver Senators successfully played both ends against the middle—finally running out on their strategic alliance with hard-money Republicans and doing business with the Administration.

Moreover, it is a fact—whatever the logic on his side in this instance—that for six years the President has exhibited the utmost determination not to return to Congress any single one of the "emergency" powers delegated to him in 1933. The 1933 argument for dollar control was that by this means the price level would be raised. This has now been forgotten and we are told that continued control powers are essential for national defense. Perhaps so, but we think a majority of Americans would feel better if the President would gracefully retreat and bow to Congress on just some one thing—anything at all. In this instance the vote in the Senate was close enough to show that resentment against White House domination is large and growing.

Finally, it must be noted that the Administration could very easily have made a deal on domestic silver

buying without retaining its foreign buying program. The latter is a demonstrated economic and monetary failure. In cheerfully keeping it, the Administration is playing politics—world politics.

FOR THE RECORD . . . Economy in government is very popular in the abstract, but extremely unpopular and distasteful in the concrete. The United States Government has now been operating at a deficit for nine years and the deficits tend to get bigger rather than smaller. Nobody is excited about it. It's a dull subject—as dull as a chronic disease that we know will come home to roost some day in a dim and vague future. It has been viewed with alarm in countless editorials. So here we will note just a few facts for the record.

The Federal deficit for the fiscal year ended June 30 was $3,600,500,000, exceeded only in 1936 when the veterans' bonus distribution swelled the total. The Federal debt on June 30 was $40,439,000,000, not counting guaranteed obligations that run into additional billions. The debt increase under the New Deal has been approximately $20,000,000,000 to date or an average of more than $3,000,000,000 a year. Over these six years the national income has averaged approximately $58,000,000,000 a year, which was $18,000,000,000 more than in 1932, the last "Hoover year." On the other hand, this has been an average of $24,000,000,000 a year less than in 1929.

The debt increase has been financed mainly out of bank credit through a process only technically different from printing the money. Instead of printing a "promise to pay" in the form of a currency bill, the Government prints a "promise to pay" in the form of a bond. We presume these promises will be made good, but nobody knows when. Meanwhile the effect has been an inflation of prices of Government bonds as extraordinary in its way as was the inflation of common stocks in 1929 or of commodities in 1919. We must reckon on a painful and disturbing reaction in the gilt-edged bond market some day but not a real collapse. Governments don't permit their credit to collapse until they have exhausted all powers of control. It will be a long time before our Government's controls have been exhausted—including the ultimate power to take over the banking system so that disguised inflation can be continued.

For the record also: our unemployed are just about as numerous as they were six years ago; our essential recovery problem—that of inducing a sustained renewal of productive private investment—remains precisely what it was six years ago; and we are apparently no closer to a solution of it than we were six years ago unless one assumes (1) that a different President could solve the problem and (2) that we will elect a different President next year.

CRUTCHES FOR CAPITALISM? . . . There must be some answer to the question why millions of men remain unemployed and billions of capital lie idle when we are being given the benefit of enlightened economic management such as we never had during all the years when our economy had to blunder along on its own as best it could. Those years were obviously the good ones, much better than any we have had since the New Deal took over. They brought us from last to first place among the nations of the world, the most remarkable record of growth ever witnessed in all history. Now we are a decade past 1929 and getting very little nearer the old peak of prosperity, though the business cycle should have brought new highs before this. Something has interfered with the rate of growth temporarily or the growth period of our economy has ended permanently. The latter explanation is naturally more acceptable to those who have assumed control of all temporal affairs.

President Roosevelt puts the question mildly: "Is it because our economy is leaving an era of rapid expansion and entering an era of steadier growth, calling for relatively less investment in private goods?" Others in New Deal circles state the flat proposition that capitalism is growing old and needs occasional injections of Government funds to keep its circulation active. Finally there are the extremists who are ready to scrap the system that is failing to work as they think it should.

The theory is dangerous to national morale and it is not in accord with the facts of the situation, though room for argument admittedly exists. Supporting a still growing population, this country has nevertheless managed to keep its resources intact in their immensity. Seven European countries last year exceeded their 1929 levels of industrial production, the United Kingdom reaching 116 per cent of the former level and Finland 153 per cent. Compared with the over-crowded, undersupplied nations of Europe the United States has far better reasons to grow. Progress here in the last decade which does not show up in charts of business activity has included the development not only of new products but of new methods at rates never before approached. Going on in such venerable industries as coal mining and such newcomers as synthetic textiles, this progress is the strongest argument against the theory—which has cropped out in every slump over the past half-century—that our growth stage has permanently ended. There should be many good years ahead.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on the next page. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue.

Monday, July 10, 1939.

What's Ahead for the Market

The market is in a technical corner, with more decisive movement certain to develop fairly soon. If June 29 lows are not broken on reaction, at least a good trading rally will be indicated.

BY A. T. MILLER

The stock market certainly is not over-crowded with bulls at present, while investors and traders who are either bearish or extremely cautious are very, very numerous. This determined majority was never more sure that the sideline is the best place to be, taking it for granted that the market can not have a worth while rally until the European situation is quite definitely clarified without war. At best, according to this concensus, we can expect a dull and narrow trading range performance; at worst, serious additional decline.

This general point of view seems logical. Our reasons tells us that it should be sound—but a hunch whispers that it looks almost suspiciously obvious, and what the market can or can not do is seldom obvious for any length of time.

In mid-June of last year there was a similar concensus that the sideline was the only sane place to be. Business was bad and Europe was a secondary factor of uncertainty to be watched for possible war crisis in late summer or autumn. We got the autumn war crisis and severe market reaction on schedule—but meanwhile business activity had turned sharply upward and our broad weekly stock index had crammed an advance of 45 per cent into five weeks time.

Now the economic trend is favorable, our adjusted business index having advanced to within 2 per cent of the high of last December, but all eyes are glued on Europe. Technically, as well as psychologically, the setting does not differ greatly from that just prior to last summer's spectacularly fast advance. Looking back to 1938, there was a 25 per cent rally in our daily industrial index in two weeks following the low of March 31. Then came eight weeks of a 10-point trading range, with progressive narrowing of daily fluctuation after the first week of June and progressive shrinkage of volume. The ensuing broad advance took off from approximately the mid-way level of that trading range.

From the April 8 low this year the rally was 17 per cent in the same index but was spread over nine weeks time; for the four weeks since the rally high of June 10 was recorded the market has held in a 9-point trading range (10 points Dow-Jones); volume during this period has been the smallest in many years; and at this writing the industrial index stands about mid-way in the recent trading range.

We have no thought of minimizing European potentialities for trouble, or of exaggerating the technical significance of a trading range pattern which has endured for only a relatively short time and which conceivably could be maintained, without important advance or decline, for an additional period of weeks. We feel, however, that the potentialities for surprise and for wide market movement are greatest on the up side, whether eventuating soon or later this summer or in early autumn. We have the impression that the sudden waning of international excitement over Danzig reflects a strategic retreat by Hitler.

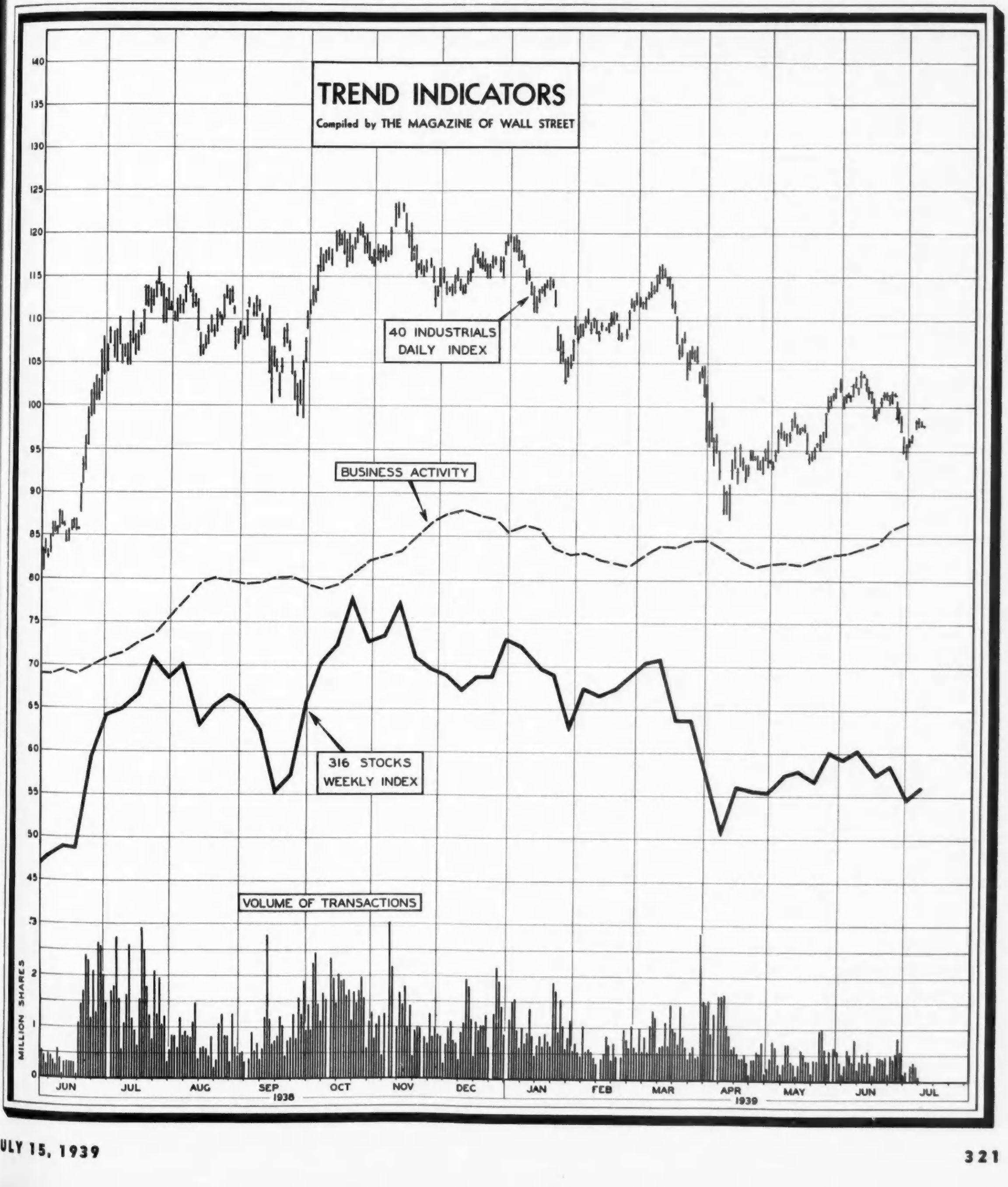
It is easy to set up a plausible time pattern for European clarification. Something like this: Polish or Roumanian crisis in late August or September, stiff market decline, passing of crisis, outbreak of peace for long time to come, big market rise. Maybe so, but it is just as well to be wary of so pat a formula either as to the sequence of European events or their correlation with our market. At least a possible alternative would be a gradual crystallization of world conviction that there will be no war, given dynamic expression in the market not by news but by a technical performance which forces potential buyers to a sudden decision. Moreover, it is quite possible that periods of substantial rally could be sandwiched between recurrent crises, without any basic clarification of the European outlook for a long time to come. Between April 8 and June 10 the European picture was no clearer than it is now, yet we had a 15-point advance in our industrial index over that period.

It is worth noting that, in terms of the Dow-Jones averages, it would take an advance of only some 6 per cent in industrials and 8 per cent in rails to top the previous rally highs. Should this happen—preceding reaction having terminated above the April low—Dow Theory adherents would be forced to the automatic decision that a "new" bull market was under way. Such

a happenstance in itself is capable of exerting considerable influence in our present painfully thin market—although we hesitate to say that Dow Theory has any prophetic bearing on what Hitler may do in Europe.

Reluctantly, but unavoidably, our present viewpoint must be short term and essentially speculative. We can not discern the base for a sustained, major advance, such as we had from the spring of 1935 to early 1937—at least not yet. Such a base does exist in the monetary factors, taken by themselves; and in the market pattern of the past eighteen months there are some interesting indications of a developing base visible not in the high grade stocks but in the "sold out" look of numerous issues of low and medium price. But a psychological base is also needed and, quite aside from Europe, this probably will have to be created by domestic political factors unlikely to be definitely clarified until some time next year.

Meanwhile, at the moment, the market has worked itself into a very narrow technical corner. Such stalemates never last more than briefly and in trading technique the only sensible policy is to let the break-out, either in reaction or rally, tell its own story. If the movement proves to be down, it will provide an opportunity for at least a trading range rally in selected industrials—provided selling dries up without penetration of recent lows. Trading purchases in such a pattern should carry a hedge against Hitler in the form of stop-loss protection just under June 29 lows. —Monday, July 10.



The Drive for Increased Public Investment of Private Capital Has Fateful Significance to American Business

Tapping New Sources of Recovery

BY THOMAS L. GODEY

Everybody knows that when the Government spends borrowed money to "prime the pump" of economic activity it makes a world of difference what the money is spent on. The income provided for millions on relief helps sustain the consumption goods industries, but lifts the capital goods industries only indirectly, belatedly and modestly. Conversely Federal money spent on large public works or battleships or military aircraft flows directly to capital goods industries and indirectly to consumption goods industries.

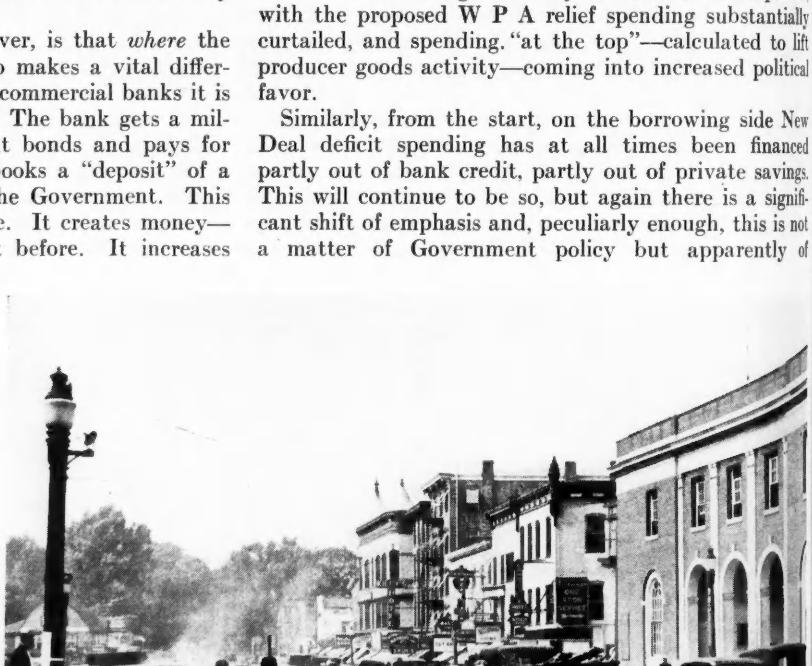
What few people realize, however, is that *where* the borrowed money comes from also makes a vital difference. If it is borrowed from the commercial banks it is virtually created out of thin air. The bank gets a million dollars worth of Government bonds and pays for them by simply writing on its books a "deposit" of a million dollars to the credit of the Government. This is credit inflation pure and simple. It creates money—bank money—that did not exist before. It increases the country's total supply of money.

But when the Government sells its bonds to insurance companies, savings banks or individual investors payment is made out of already existant bank deposits. No new money is created. In this process the Government is not borrowing credit but actual savings, the capital accumulated out of the industry and thrift of its people.

The above distinctions must be kept in mind in any realistic appraisal of the new pump-priming program proposed by President Roosevelt and now simmering in Congress, as well as in any interpretation of Federal fiscal policy in its relation to both the important bank credit picture and the flow of private investment.

It would be misleading simplification to say that the President's recommended program represents a complete innovation either as to the ways in which it is proposed to spend the money or the sources from whence it will come. From the inception of New Deal pump-priming in 1933 deficit spending has been directed at both stimulation of consumer purchasing power and stimulation of the capital goods industries through public works, but with major emphasis on consumer purchasing power. What we are seeing is merely some shift of emphasis, with the proposed W P A relief spending substantially curtailed, and spending "at the top"—calculated to lift producer goods activity—coming into increased political favor.

Similarly, from the start, on the borrowing side New Deal deficit spending has at all times been financed partly out of bank credit, partly out of private savings. This will continue to be so, but again there is a significant shift of emphasis and, peculiarly enough, this is not a matter of Government policy but apparently of



Gendreau

W P A activities exemplify public spending.

private investment policy. Moreover, recognized by very few people, it has been going on for some time. The fact is that bank credit inflation resulting directly from Government borrowing reached a peak in July, 1936, which to date has not been exceeded although over this period the Government debt has increased by approximately $7,690,000,000.

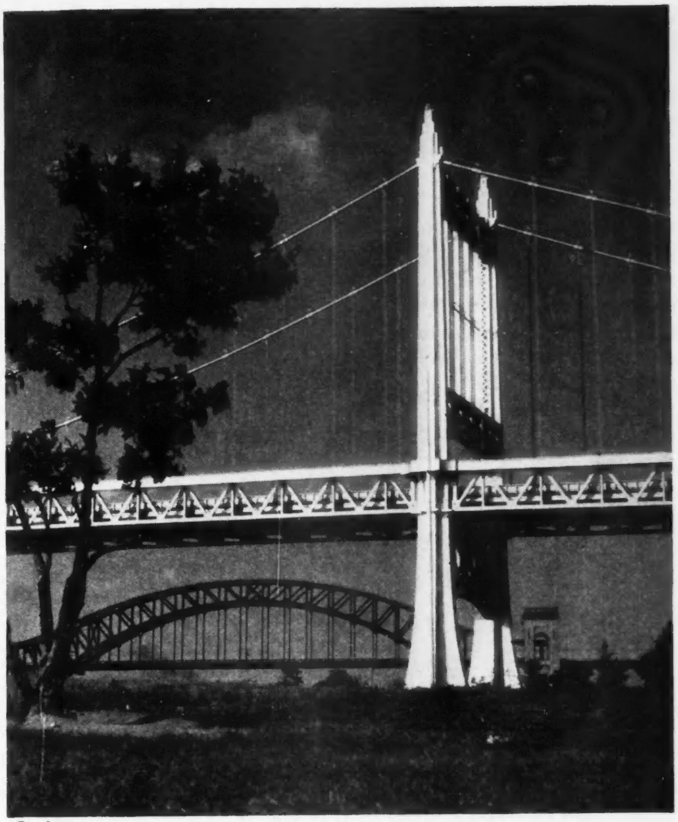
This means that during the past three years the commercial banks, on balance, have not increased their holdings of Government bonds, although they are up very sharply from the 1938 low, and that $7,690,000,000 of Government debt has been financed by tapping the savings of institutional and individual investors.

The New Deal's now frankly espoused philosophy that there are inadequate opportunities for private investment in our maturing economy and that the Government must therefore borrow and invest the country's savings as a permanent policy raises frightening visions of State Socialism in many minds—and well it may. Yet the fact is that private capital is voluntarily flowing into public investment in ever-increasing volume, regardless of *why* the opportunities for more productive investment are limited and regardless of whether such limitations are permanent, as most New Dealers feel, or temporary, as believers in our traditional profit system believe.

It may be that the public spending of $7,690,000,000 of private capital is a long step toward some kind of "ism" in which the Government and the economic system are virtually one. If so, we merely observe here that the unknowing American public has been steadily and increasingly drifting in this direction for a period of years and that the danger has not suddenly emerged like a bolt from the blue in the Administration's latest version of streamlined pump-priming.

The principle of Government intervention in the economic cycle and of "compensatory" deficit spending is firmly established in this country, as in most important foreign countries. It is wholly improbable that a conservative, pro-business Administration at Washington could do more than modify it in scope and method of application—but that would be enough to satisfy all save die-hard reactionaries for the glaring weakness of the Government's present "managed economy" is ineptitude of method and administration.

It would be one thing for Government spending-lending to supplement an inadequate capitalism which was functioning to its maximum abilities and toward the dynamic encouragement of which the sum total of Federal policy was aimed. It is quite something else again to apply the supplement of compensatory spending to a capitalism which is functioning nowhere near its real potential—granting that we have entered the plane of maturing economy—and which in important measure is restrained from maximum productivity by distrust of the Administration's motives and methods. This is not by any means to hold that the current stagnation of productive private investment is solely due to the New Deal. There are other confidence killers, notably the war uncertainty—but whatever the actual potential of the profit system may be in the present-day world, it can hardly be disputed that it has at no time been reached in the past six years of experimentation at Washington. Moreover, without touching on the controversial field of New Deal errors of commission, it can't be denied that after six years of assorted efforts the New Deal's failure thus far to bring about a satisfactory recovery in production and employment is an error of omission such as the American people customarily charge against the Administration in power.



Gendreau

Toll bridges are typical of sound public investment.

Admitting that population growth has slackened sharply and that long-term expansion of many important industries has flattened out or terminated, nevertheless we don't know what the inherent limit of capitalist productivity is in this country. New industries are never obvious until after they have developed. The pessimistic diagnosis of the profit system now prevalent—and for the first time in our history accepted by the Government itself—is not new. It has been made in every depression for a hundred years back. If our memory serves, it was around 1870 that the Federal Commissioner of Patents resigned with the explanation that nothing of importance remained to be invented.

On the other side of the picture, it is not at all difficult to measure, at least in rough approximation, the inherent limitations of Government spending-lending as a source of economic stimulation.

For one thing, in terms of national income annually produced, this is a $65,000,000,000 country even under

present conditions and under favorable conditions such as we formerly knew it was an $80,000,000,000 country. Whichever of these figures one looks at, it is astronomical as compared with Federal deficit spending of $3,000,000,000 or $4,000,000,000 a year.

Yet whether Uncle Sam borrows this $3,000,000,000 to $4,000,000,000 a year from commercial banks or from the owners of capital or from both, we are cumulatively building up some first class dilemmas from which escape will be exceedingly difficult and may be impossible. Although no one can precisely state the limit, we know there surely *is* a limit to Government borrowing of bank credit just as there is a limit to private borrowing of bank credit. Otherwise it would be a cinch to coast merrily into an economic Utopia in which everybody got a Government pension of $10,000 a year financed out of endless bank credit! We know that somewhere up this road disagreeable things *must* begin to happen. It will hardly be the disastrous price inflation that some naive observers talk about. It could more likely be a threatened collapse of the unprecedented bull market in highest grade bonds—staved off by Government confiscation of the banking system and the final jump to State Capitalism.

To the extent that the Government borrows private savings, it is competing for capital with private borrowers or potential borrowers and is diverting capital from potential productive investment to public investment which is non-self-sustaining either in whole or in part. Yet, if we are to retain a capitalist system, the integrity of this mounting mass of Federal debt rests wholly, in the final analysis, on the Government's power to tax the fruits of that system's profit-inspired production. Disregarding cyclical fluctuations in business activity, as a longer term matter this works out into a perfect vicious cycle—more public debt to be supported by capitalist production, less capitalist production, more public debt and so on to the impasse and breaking point.

Even a sweeping change to a pro-capitalist Government would leave some problems which from this distance look a bit disconcerting. For example, assume that such a political change brought in its train a vigorous economic recovery, attended by rising stock prices and increasing business demand for bank credit. In that case what happens to prices of gilt-edged bonds, recently at record heights, as banks sell investments in order to increase loans and as individual investors sell bonds in order to buy stock? Without the most skillful Government intervention, could we have a bull market in anything with gilt-edged bonds in a bear market?

The more the President's specific "public investment" proposals are analyzed, the more obvious become their weaknesses and limitations—and the more doubtful appears adoption of the plan in anything like its present form by Congress. The total of $3,060,000,000 looks large, but would be spread over a period of years with only $870,000,000, at most, to be added to Federal spending-lending in the 1940 fiscal year. In relation to our total economy, the latter sum is a drop in the bucket. Congress willing, it would be divided as follows:

Projects "of the self-financing" type $150,000,000, including water works, sewage-disposal plants, bridges, hospitals and other municipal projects.

Another $150,000,000 for express post roads, self-liquidating toll roads, bridges, high-speed highways and city by-passes.

Total of $100,000,000 to purchase railroad equipment to be leased to railroads.

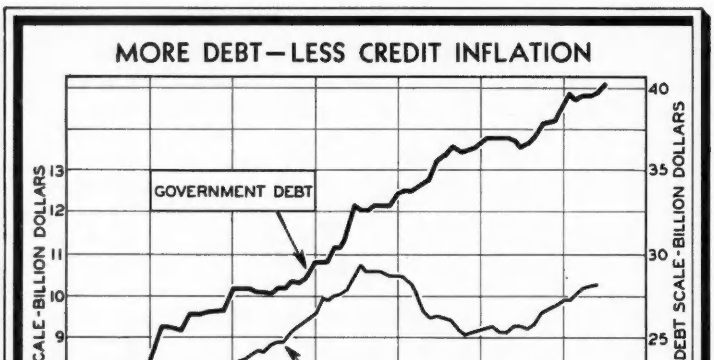
Addition of $20,000,000 to the Federal rural electrification program.

Addition of $250,000,000 to the farm tenant program.

An item of $200,000,000 to be extended in loans to foreign governments.

Only a few general observations need to be made about this proposed program. First, it is to be doubted that as much as half of the suggested lending would be actually self-liquidating. Second, truly self-liquidating projects—such as toll bridges soundly conceived in relation to potential traffic revenues—can be financed with the greatest of ease by local units of government, without dependence on the Federal credit. Third, projects which are not self-liquidating—such as the hospitals which Mr. Roosevelt listed, erroneously, among his suggested "self-financing" items — are a desirable addition to public wealth but from an economic viewpoint represent merely an addition to the public debt and maintenance costs to be carried by present and future taxpayers. Fourth, while local governments are avid seekers of Federal subsidies, this is a straight lending plan, rather than a subsidy, and there will be no rush of applicants.

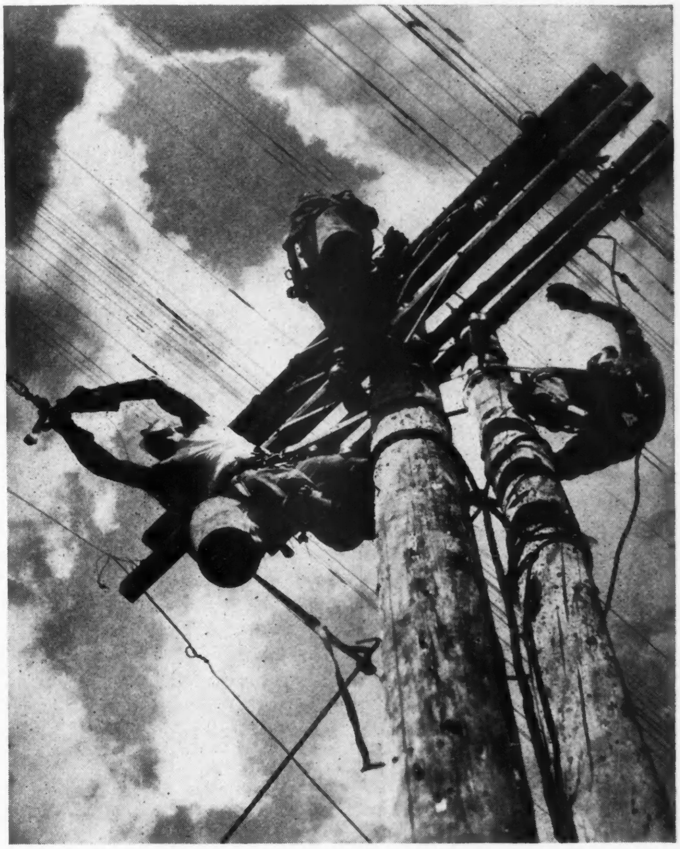
We have in this country today a record-breaking supply of capital and bank credit, ready to be put to active and productive use the moment conditions permit a confident judgment that it can be employed with reasonable chance of profit and with reasonable safety. Nothing is more absurd than the political cry that capital is "on strike" and that credit is being denied worthy borrowers. The truth is that among responsible entrepreneurs reluctance to borrow greatly exceeds the (*Please turn to page 362*)



Telephone's Changed Outlook

F C C Report Settles Some Questions, But Safety of A. T. & T. $9 Dividend Is Still a Matter of Rates vs. Costs

BY J. C. CLIFFORD

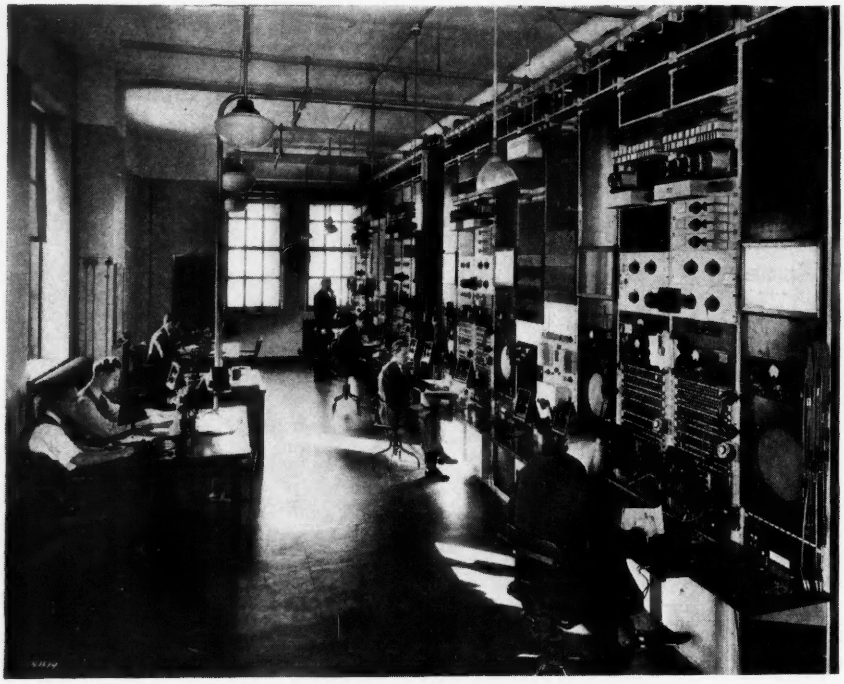

H. Armstrong Roberts

THE report of the Federal Communications Commission given to Congress recently criticizes American Telephone severely for some of its methods and practices; it suggests more stringent regulation in the future; it apparently threatens considerable damage to Telephone's earning power. Nevertheless, this report actually clarifies the situation, for two reasons. First, it comes as an anti-climax to the much harsher "proposed report" presented by one of the Commissioners just over a year ago, expressing the opinion that rates could be cut 25 per cent without hurting earnings. The final report goes to no such lengths and could have been, therefore, much worse. Second, the implication is plain that after spending several years and millions of dollars on the project, very little could be found wrong with the world's largest and most widely owned corporation.

The investigation started with the attitude that "the American people are entitled to know if they are being over-charged for this service even if they are satisfied with the service." Fair enough. The satisfaction can almost be assumed. This country with 6 per cent of the globe's population has 49 per cent of the telephones; nowhere else has the communications industry flourished to such an extent as here. Delays, breakdowns and friction with subscribers are not only infrequent here in relation to the troubles in other countries, they are each year rarer than the year before. Long-distance rates have come down to half their levels in the early twenties, and the time required to put through one of these calls has been cut to less than one-quarter as compared with 1921.

As for the question of over-charging, the F C C report itself makes good testimony from the opposition. It finds that in the twenty-three years from 1913 to 1935, inclusive, the net telephone earnings of the Bell System, as reflected in the consolidated operating statements of the American company and the associated telephone companies, averaged 7 per cent annually on the average net book cost of telephone plant and equipment. That sounds like a good return today, but American Telephone and the Bell System represent one of the outstanding successes of the era. Money so wisely invested deserves a better return over the years than that which is put into mediocre enterprises. At any given time when a purchase of plant or other investment is being made the undertaking involves a risk, and the fact that dangers of the past have been successfully avoided or overcome does not prove that the risk was small. Compared with a private venture which turns out well, the return on book values in the Bell System as stated is low, near the minimum of reward for long-term speculation in a growing industry, and certainly no basis for attack on the System's profits.

There is criticism, however, of the accounting methods used in arriving at earnings, and particularly of the



Courtesy A. T. & T.

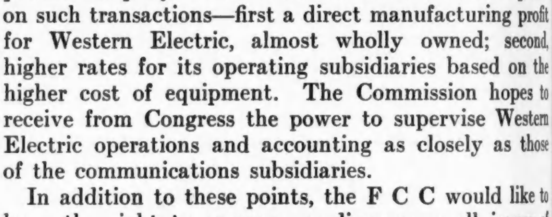
Part of general control office in the long distance building, N. Y. C., showing Radio Program transmission equipment used in broadcasting network programs.

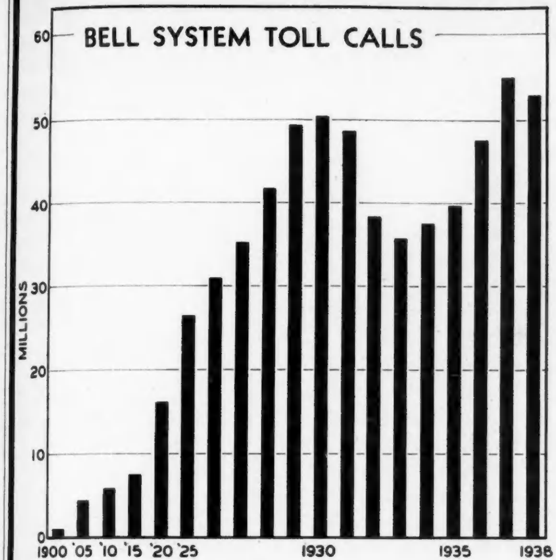
charges for depreciation. The industry is naturally characterized by very heavy investments in plant and equipment in relation to revenues, which in turn necessitate large expenditures to keep them in first class condition and large reserves to provide for eventual retirement. Maintenance expenses during 1938 amounted to $207,979,688, depreciation and amortization to $157,508,634, or a combined total of 34.7 per cent of gross revenues. Yet although the depreciation charge alone was more than 15 per cent of last year's gross, it constituted only about 4 per cent of total depreciable assets. It also was almost $35,000,000 less than the charge for this purpose in 1931. The Walker report, which was the proposed report made in 1938, claimed that depreciation accruals of the System were "excessive" and that there had been "an excess of 20 per cent in the annual depreciation charges." The report of the full Commission does not take the same stand, but if the F C C were given complete power over all the System's policies there can be no doubt that this subject would be among the first to be tackled though not the most easily settled.

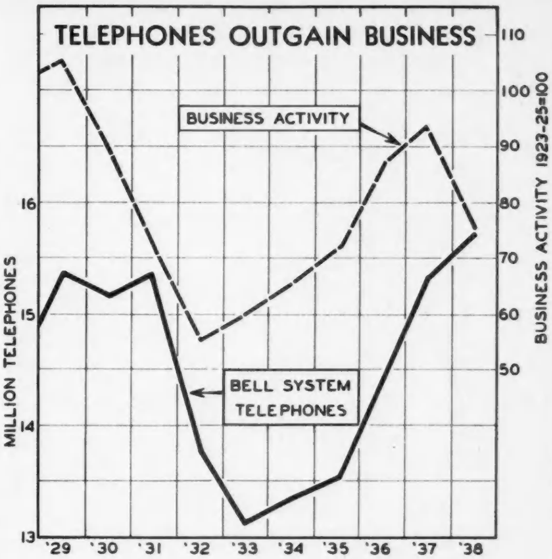
The System's depreciation reserves at present amount to about 28 per cent of depreciable plant account. The objection is not only that expenses have been overstated (and profits therefore understated) by heavy depreciation charges, but that depreciation for valuation purposes has been inconsistent with that for operating expense purposes. This point of view leads to the conclusion that while a certain asset is being written down as having lost a good part of its value, it is being used to a greater extent as a base for valuation and rate-making. The subject is extremely complicated and present methods have been under review by the courts from time to time and will be in the future, so that there seems to be no necessity to guess at what might prove a final solution.

Another objection to the company's accounting methods involves American Telephone's manufacturing subsidiary, Western Electric Co. The F C C report states that "estimates of cost of reproduction of, or recorded investment in, telephone property for an individual state or exchange based on Western Electric costs and prices are entitled to little weight as evidence of the fair value of the telephone property involved as a result of the costing practices followed by Western." The Walker report had gone to great lengths to show that prices charged by Western Electric in selling equipment to the companies in the system were not only above what they should have been with a reasonable profit margin, but were in many cases above comparable prices of independent equipment manufacturers. If this were true, and it has not been conclusively demonstrated yet, then the parent company would stand to make a double profit on such transactions—first a direct manufacturing profit for Western Electric, almost wholly owned; second, higher rates for its operating subsidiaries based on the higher cost of equipment. The Commission hopes to receive from Congress the power to supervise Western Electric operations and accounting as closely as those of the communications subsidiaries.

In addition to these points, the F C C would like to have the right to approve or disapprove all issues of securities by companies falling within its jurisdiction. Until changed by act of Congress in 1934 control over the industry was exercised by the Interstate Commerce Commission, which still has authority in all cases of







railroad security issues. The F C C sees no reason why its powers over the industry it governs should not be as broad as those of the I C C, but in recent years another Government agency has been created to regulate most phases of security issuance and sale. The S E C could be expected to do a competent job in regulating the telephone industry's securities as it does for all other large enterprises. Whether the F C C will get this additional power is questionable.

Most of the specific requests of the report to Congress ask for broader influence and strengthening of the original mandate. One worth individual notice is next to last in the list—"in the event of the refusal of any common carrier utility engaged in interstate communications to license others upon reasonable terms under any patents obtained in connection with communications service to the general public as a common carrier utility, the Commission should be empowered, upon the application of parties so refused, to order the issuance of such license; provided that the granting thereof will not be detrimental to the communication service rendered by the utility holding such patents and not detrimental to technical progress." Then the ninth and last suggestion is that Congress should "give consideration to the question of assessing the cost of regulation against the industry to be regulated."

The several appropriations for this investigation, in addition to the regular budget for the F C C, totaled $1,500,000, but the actual cost was far larger when the expense to the Bell System is included. At times the requirements of the Commission's investigators used the full-time services of over 200 System employees and during one period 750 volumes of records were furnished daily. Reports submitted by investigators up to the time of the Walker report totaled over 15,000 pages, and the transcript of testimony contained over 8,800 pages. Commission men occupied as much as 28,000 square feet of the company's floor space in the course of their work. Conservative estimates place the cost of the investigation to the Bell System as at least twice that to the Government. Its formal beginning was in November, 1934, and although actual work did not start immediately a good four years and probably five million dollars went into the effort to find out what was wrong with the Bell System, if anything.

The final answer seems to be that very little fault can be found, considering the size of the enterprise, the long period covered by the investigation, and the complex and controversial decisions involved in the System's many years of trail-blazing in new fields. If there was bias in the investigation, it was certainly on the side of hostility toward the company and determination to bring out damaging facts. President Gifford called the whole proceeding ex parte and one-sided. He added: "We were denied the right to present witnesses of our own or to cross-examine the Commission's witnesses and investigators. While we were permitted to submit comments and file a brief, we stated then, and we repeat now, that this was no substitute for cross-examination and evidence. The recommendations and findings in this final report should be appraised in the light of these facts." Partly because of the methods used, the F C C will probably have a difficult job trying to convince Congress or the public that results have justified the expense of the investigation. And because the F C C is not overly popular with Congress it will find no great eagerness in that body to widen its powers without first scrutinizing the Commission itself for possibilities of improvement.

The Bell System which has undergone such a thorough examination consists of two dozen controlled subsidiaries with American Telephone at the top, mainly through direct stock ownership. Almost 75 per cent of the telephones in the System are owned by subsidiaries in which American Telephone controls 99 per cent or more of the common stock, while the associated companies in which holdings amount to less than half are excluded now from consolidated accounts. Other

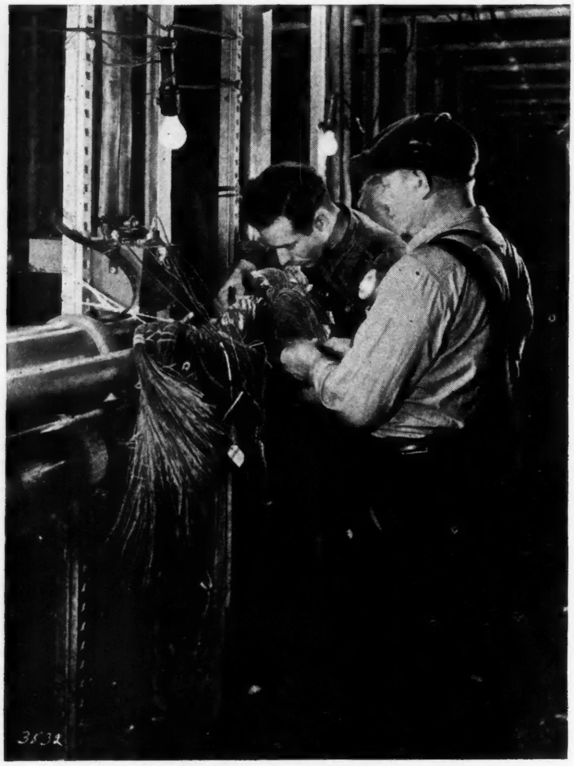


Photo from N. J. Bell Tel. Co.

Splicing telephone cables leading into central offices requires skill and experience.

interests are slightly less than one-quarter ownership of Bell Telephone Co. of Canada, and a half interest in Cuban T. & T. Co.

The parent company owns over 99 per cent of the 6,000,000 shares of Western Electric Co., huge manufacturing subsidiary with its two largest plants at Kearny, N. J., and Hawthorne, Ill. Sales of Western Electric were $175,163,000 last year, $203,467,000 in 1937, which was the post-depression peak. Back in 1929, however, sales of this company amounted to $410,950,000, in 1930 to $361,468,000. Profits in 1929 were just under $27,000,000, as compared with $19,514,000 in 1937 and $5,734,000 last year.

American Telephone and Western Electric share ownership of the Bell Telephone Laboratories which carry on research and development work for the System. The cost of research in 1933 was about $7,700,000 and was increased in every year except one since then, with the figure for 1938 exceeding $10,000,000. Results are familiar to every telephone user, not only in the greater range of possible connection, but in such advances as the radio telephone service which makes it possible to carry on conversations with ships at sea. A direct radio circuit was established last year between San Francisco and Australia, replacing the original route by way of New York and London. With the new circuit several thousand miles shorter, calls are substantially cheaper and volume of business will inevitably gain. Improvements to the radio telephone system have recently made possible the use of two telephone circuits on short wave radio channels to London which previously provided but one circuit apiece. An experimental coaxial cable between New York and Philadelphia has proved a practical success in carrying a large number of messages simultaneously over a single circuit, thereby cutting down the very costly installation and maintenance of wires. The first commercial installation is under way.

Most of the advances achieved by the Bell Laboratories are directly connected with the telephone, its construction, operation or protection from hazards, but these efforts have naturally led to developments which branch into other fields. Aviation, for instance, is being aided by Bell discoveries in the radio field. Shipping is another beneficiary, in addition to radio and television. There is every indication, however, that the amounts expended in research have produced excellent returns to the System in building efficiency.

The parent company operates the long distance lines reaching into Canada, Mexico and Cuba, as well as the radio service to other continents. It also furnishes teletypewriter service, distributes radio programs over networks of wires, and transmits pictures and facsimiles by wire between cities. Other sources of direct revenue include license contracts with subsidiaries under which American Telephone receives 1½ per cent of gross revenues. This amounted to $14,464,000 last year.

As shown by the accompanying charts, two-thirds of the Bell System's revenues come from local telephone service which is slow to respond to changes in business conditions throughout the country. Thus both gross revenues and profits held up well in 1930 and 1931, but were sluggish in their rise in the first years of the following recovery. In 1938 local service revenues were higher than in the preceding year, and toll service revenues lower, with total gross slightly ahead on the year. Maintenance charges were higher than in 1937, as were traffic expenses and taxes, while dividends received from unconsolidated subsidiaries were sharply lower. Net

Bell System Consolidated Balance Sheet

December 31, 1938

ASSETS

Total Plant and other investments	$4,804,562,562
Cash and marketable securities	135,965,491
Current receivables	102,970,588
Materials and supplies	47,169,154
Deferred debits	28,395,120
Total assets	$5,119,062,915

LIABILITIES

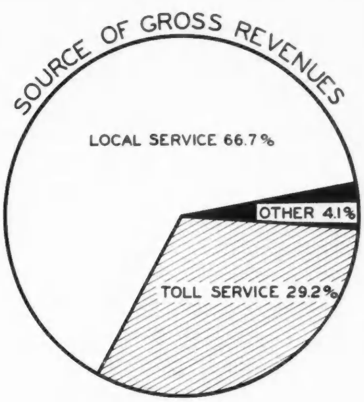
Capital stock, A T & T $100 par	$1,868,679,400
Other capital liabilities	398,628,539
Funded debt	954,632,735
Notes sold to trustee of pension funds	121,536,524
Current and accrued liabilities	205,143,596
Deferred credits	5,541,203
Depreciation and amortization reserves	1,253,081,519
Minorities' surplus	3,021,303
A. T. & T. surplus	308,798,096
Total liabilities	$5,119,062,915

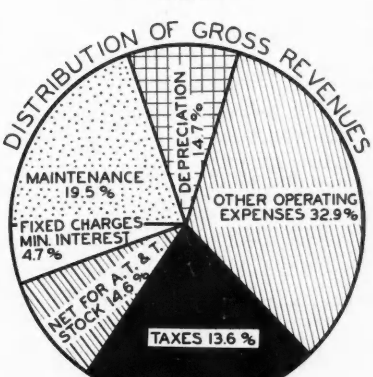
consolidated earnings of $155,543,144 were almost $27,000,000 less than in the year before and they were $12,638,000 less than the amount paid out in dividends on the common stock of the parent company.

The capitalization of American Telephone proper consists of $438,093,000 of funded debt and notes sold to the trustees of the pension fund, and 18,686,794 shares of common stock. Dividends on this issue have been at the rate of $9 per share annually since 1921, and the minimum payment over a 54 year period has been $7.50 per share on the stock outstanding each year. The five years including 1938 shown on the chart with earnings insufficient to cover dividends are the only ones in that category in over half a century. During the many profitable years the company built up a strong asset position, kept dividends at a regular rate and financed to a great extent through the sale of additional stock to owners at prices which were well below prevailing markets.

At the end of last year there were 647,000 stockholders of record with average holdings of 29 shares each, none holding as much as 1 per cent of the amount outstanding. Approximately one-quarter of the Bell System employees were also stockholders. In the middle of the depression the company acknowledged its responsibility to the owners of the business in these words: "For many years an important consideration back of the financial policy of the company has been the fact that regular dividends, representing, as they do, a return on actual cash invested, are vital to the day-by-day living of the vast majority of its hundreds of thousands of stock holders, more than half of whom are women." This consideration has resulted in maintenance of the $9 dividend rate through periods when the future looked discouraging and when each dividend meeting of the company was taken as a threat of a reduced rate. It has, in fact, set up a strong sentimental feeling for the Telephone dividend even among those who are not stockholders and a lower payment would be a shock to the whole financial community.

Every year, however, that the company fails to earn its dividend makes the payment more difficult. The 1938 dip into surplus was not serious, especially since the excess of earnings in the previous year over dividends was somewhat more than sufficient to offset the deficit, leaving a net credit to surplus for the two years. But a comparison of the latest balance sheet with that of 1930 shows a striking difference in current assets. Cash or equivalent on a consolidated basis is $283,150,000 lower at $135,965,000; receivables are $48,200,000 lower at $102,971,000. With current liabilities practically unchanged, there has been a decline in the two main items of current assets amounting to over $331,000,000. Although this decline was not due in major part to the payment of dividends out of surplus, and although it has been compensated by increases in fixed assets, it nevertheless affects the question of future payments out of surplus.





Confidence in the dividend rate must be based principally on the belief that earning power will benefit from continued growth of the business. Telephones in service at the end of 1938 numbered 15,761,000, a new high record, up 3 per cent over the previous record set at the end of 1937. Toll revenues will inevitably gain with any improvement in general business. While rates have given no sign of reversing their long downtrend, the decline has flattened out and further reductions are likely to be mainly in line with operating economies and are likely to produce larger revenues through wider use. Western Electric profits and dividends to the parent company, moreover, will move upward readily in prosperous times. Refunding of System obligations since late 1935 has resulted in lowering interest charges by about $11,000,000 annually and further savings of the same kind are probable in the near future. Meanwhile the heavy depreciation charges already referred to serve to cushion the company against the apparent deficits after dividends which have lately become frequent.

On the opposite side of the ledger is the tendency for wages and salaries to rise in relation to gross revenues. In 1936 41.6 per cent of revenues were allotted to payrolls, in 1937 the proportion moved up to 44.7 per cent, and in 1938 to 45.9 per cent. This trend is despite the steps toward mechanization of the industry and it will apparently be changed only by a jump in revenues which would leave payrolls at least temporarily behind.

The quality of American Telephone stock as an investment is indicated by its market record. After touching a low of 88 in 1907 it held consistently above there for a quarter of a century, until the low of 69¾ was recorded in 1932. Throughout the last slump its action has been outstandingly stable, never falling below 111. And during practically all of the present century the yield on market price has been generous even without considering the rights which have at times been an important auxiliary source of income to stockholders.

In times of uncertainty such a record is a strong recommendation for any issue and the income of close to 6 per cent on the current market price of 155 is not the least of American Telephone's attractions. If a reduction became necessary, even a $6 dividend would mean a yield of almost 4 per cent on the present market price, and since that would be a minimum figure there is considerable justification for considering American Telephone common stock soundly and conservatively priced, likely to gain moderately under improving business conditions and to put up stiff resistance to future slumps.

Happening in Washington

SPECIAL LEGISLATIVE FORECAST

BY E. K. T.

The end of the fiscal year found Congress caught in a legislative jam the like of which it had not seen since the old days when Congress expired on March 4. The reason was the necessity of enacting appropriation and other bills to continue activities which otherwise would expire July 1—although the need for action before this deadline was fully apparent during the six months of the session.

These past six months have demonstrated that the President does not have anywhere near the control over Congress to which he is accustomed, and while there have been no knock-down and drag-out fights like that on the Supreme Court, and while many of the differences have been compromised, still there is an unmistakable determination on the part of Congress to do its own legislating. That this situation has not resulted in complete deadlock is shown by the list of important laws enacted, but the number of both routine and important things still pending demonstrates the degree to which Congress lacks unified party leadership and control.

ACCOMPLISHMENTS

The calendar of Congress as of July 1 shows a score of laws enacted on subjects of importance to business. Chief ones are:

Appropriations: Largest by any session of Congress for 20 years: about $11 billion of regular appropriations, or close to $14 billion including permanent appropriations and reappropriations—with a big supplemental bill still to come. This does not include commitments and authorizations which will require increased spending later. The President has displayed no leadership in the matter of economy, and Congress has no desire to take the initiative on this issue, and as a result Federal finances are completely out of control.

Defense: Congress approved all items of Roosevelt's vast program for national defense, plus some additions of its own, including appropriations for the coming year of $1,800 millions for expanding the Army, Navy, air services, and collateral military activities.

Reorganization: Avoiding much of the bitter fight of the previous session, Congress voted the President modified and limited powers to reorganize the federal government, under which many bureaus have been shifted among Departments and three new agencies have been created with almost Cabinet rank — Federal Works Agency, Federal Loans Agency, Federal Security Agency.

Taxes: Enactment of law easing business irritants and eliminating Roosevelt's pet undistributed profits tax was a major revolution against executive dictation, but was accomplished so quietly, quickly and unanimously as to amount to a coup d'etat.

Relief: Congress belatedly took from Roosevelt much of the control over relief, appropriating all the money he asked but putting strings on it, saying how it should be spent, and imposing restrictions pleasing to business but disliked by the administration.

Farmers: Voted $338 million for farm subsidies not wanted by the administration, and enacted half a dozen measures liberalizing and extending farm relief and control laws.

Public salary tax act reciprocally subjects employees of all governmental units to state and federal income taxes, as urged by Roosevelt, but Congress split it off from his request for elimination of tax-exempt bonds.

Internal Revenue Code reenacted and codified all tax laws, a major and non-partisan improvement.

Extensions voted for life of R F C and related lending agencies.

Monopoly probe enlarged by voting T N E C additional funds.

Federal Housing Administration's mortgage insurance system enlarged, though not as much as Roosevelt wanted; its reconditioning loan guarantee plan renewed against F H A wishes.

War materials act directs Army and Navy to build up huge stock piles of critical and strategic defense minerals and supplies.

Congressional investigations: new studies ordered on telegraph industry and W P A, and old ones on forestry practices and un-American activities (Dies) extended.

"Hot oil" control by government extended for 3 years.

Rejections: in addition to pigeon-holed proposals, the House voted down the Townsend old-age pension plan, and the Senate voted down the Florida ship canal, the latter a direct administration defeat. In this category could be put the successful Senate filibuster against continuation of Roosevelt's power to devalue the dollar, though renewal was finally pushed through.

UNFINISHED BUSINESS

Passed both Houses in different forms and still in conference when the fiscal year ended were bills to lift the $30 billion limitation on amount of outstanding long-term bonds, to permit T V A to purchase private power facilities (these two tied up together), and the Chandler railroad bankruptcy bill.

Bills Passed by the Senate and Awaiting House Action Include:—

Trust indenture regulation by S E C; enactment in modified form probable.

Barter authorization to supplement British cotton-rubber war stocks swap; little opposition expected.

Transportation: revision and codification of all I C C and related laws; creation of special court for railroad reorganization; tightening of federal regulation of motor carriers; House approval this session doubtful.

Stream pollution abatement by federal studies and loans; opposition favoring drastic federal control not sufficient to defeat bill but has delayed consideration.

U S H A: expand subsidized housing and slum clearance program; considerable opposition, enactment chances 50-50.

Philippine independence, modification of economic relations; some opposition and no great push; may go over to next session.

Politics in relief: Hatch bill to prevent pernicious political activity among all office holders will probably be enacted with the teeth drawn.

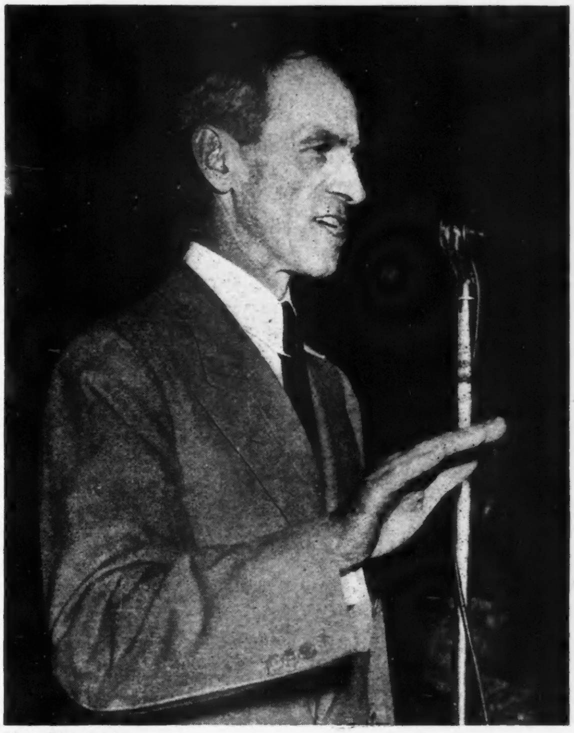
House-Approved Measures Pending in the Senate Include:—

Neutrality revision, in a form only partly acceptable to Administration; long Senate debate in prospect with outcome uncertain.

Social Security revision: Senate approval due soon, probably with important amendments.

Merchant marine: omnibus bill revising several laws; will go over to next session.

River and harbor and flood control project authorizations totaling $407 million; will go through.



Wide World Photo

Senator Tydings of Maryland, one of the opponents of the President's dollar control powers—"won a battle but lost the war."

BACKLOG OF BUSINESS

On the calendars, with favorable committee reports but no action by either House, are the following bills of interest to business, with estimates of their passage this session:

Wage-hour law liberalizations; stymied by attempt of farm interests to get more exemptions, apparently dead.

Building and loan expansion and other liberalizations of Federal Home Loan Bank system; bitter opposition; may pass House but not Senate this session.

Walsh-Healey government contracts labor regulation expansion; little chance.

Block-booking prohibition in motion picture distribution; slight chance.

Wool labeling requirement; probably not this session.

Trade mark law, general revision; been attempted for several years, may pass House this session but not Senate.

Patent law revision to speed up procedure in Patent Office; considerable opposition, but Administration is trying to railroad through and may succeed.

Tax publicity repealer; won't get through Senate.

Oil compact; renewal of interstate conservation agreement; enactment certain.

Travel stimulation in U. S. by new Federal bureau; will go over to next session. *(Please turn to page 362)*

What World Armament Means to Our Domestic Economy

BY JOHN C. CRESSWILL

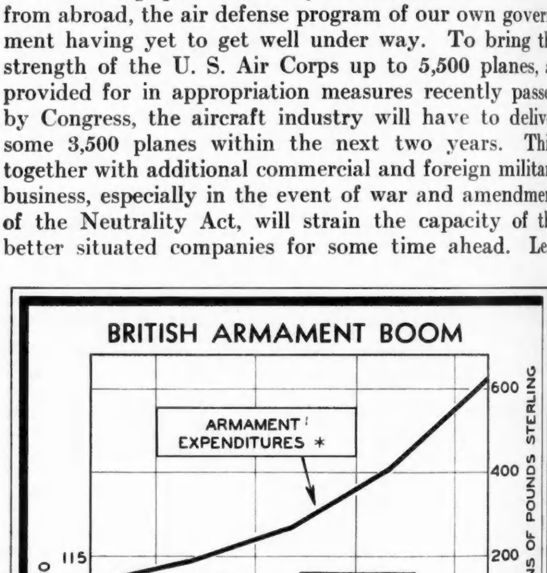
In 1913, the year before the Great War, world armament expenditures amounted to about $3,000,000,000. In 1938 the total was nearly six times as much or approximately $17,600,000,000. And in the present year of grace it is conservatively estimated that man's tribute to Mars will approach, and perhaps exceed, the tidy sum of $25,000,000,000.

Lest we get lost among the zeros, let's put it this way: To almost anyone but a politician, a million dollars is a lot of money. But multiply a million dollars twenty-five thousand times and you have the amount that the so-called civilized countries of the world will probably spend on the tools of war in 1939. Provided, of course, that war itself is not forthcoming this year—in that contingency, all bets are off and the sky is the limit. But we'll have a word to say on that later; first let's consider the consequences to our domestic economy of world armament spending at a rate of something like $2,850,000 an hour.

In the first place, it is fairly apparent that domestic industry as a whole has thus far felt the effects of these expenditures, tremendous though they are, to only a small degree. Contrary to the situation in England where steel output is at record levels, where other industries are prospering roughly in proportion to their importance to national defense and where total employment has reached a new all time high, there is no general armament boom in the United States. Exports for armament purposes, excluding aircraft, machine tools and a few specialties of insignificant importance to our economy as a whole, have been of trifling proportions—in fact, total exports of all merchandise this year to date have been running substantially below last year's level. Steel scrap provides an illuminating example for, despite all talk of huge shipments to Japan, the fact is that exports during the first five months of 1939 were 15.1 per cent under the total of the same period of last year and amounted in all to little more than half the tonnage consumed domestically in the single month of May when our steel industry was operating at only 48.2 per cent of capacity.

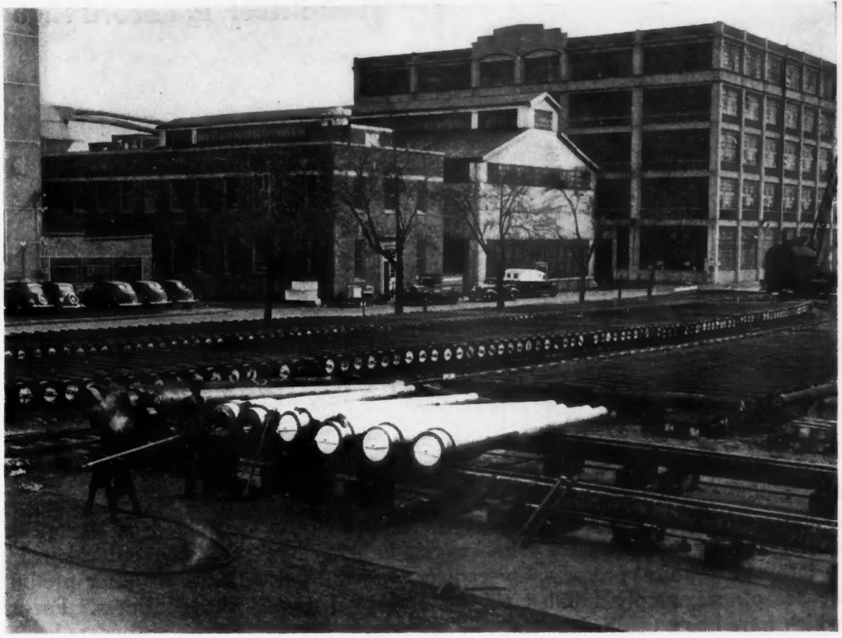
In the light of the foregoing, then, the question of world armament expenditures and their effect on our domestic economy is actually threefold: (1) if business at large has not yet responded to these expenditures, what specific industries have? (2) how much of a fillip may general business expect later on if war does not come in 1939? (3) how much if war does come? Let's consider these questions in the order posed.

There are really only three industries whose current activity is traceable in any considerable measure to military sources of demand. They are aircraft manufacturing, shipbuilding and the manufacture of machine tools. Virtually all of the principal airplane and parts makers are heavily dependent on government business, both domestic and foreign, and have been for some time past. Moreover, this situation will undoubtedly continue for thus far a large part of military aircraft orders have come from abroad, the air defense program of our own government having yet to get well under way. To bring the strength of the U. S. Air Corps up to 5,500 planes, as provided for in appropriation measures recently passed by Congress, the aircraft industry will have to deliver some 3,500 planes within the next two years. This, together with additional commercial and foreign military business, especially in the event of war and amendment of the Neutrality Act, will strain the capacity of the better situated companies for some time ahead. Less



favored concerns, due to government procurement regulations requiring competitive bidding, may only get the overflow business.

The current high rate of activity in American shipyards is due, even more than in aircraft factories, to governmental stimulus, though naval building is only part of the story, Federal subsidy of merchant vessel construction also being largely responsible for what has assumed the proportions of the biggest boom in shipbuilding since just after the war. Including inland water and naval war craft, there are now building in domestic yards some 1,200,000 tons of vessels. The U. S. Maritime Commission's program—"a ship a week for 500 weeks" at a cost of about $1,250,000,000 — calls for an outlay of $393,000,000 in 1939. Pursuant to authorizations contained in the Navy Supply bill for fiscal 1940, 21 new Navy keels will be laid in the next twelve months, construction will be continued on 121 ships now building and $254,000,000 will be disbursed in the process. In the following year it is estimated that the total will be jumped to $370,500,000. But excluding machine tool makers, the money going into shipbuilding will benefit other industries but little; the amount of steel involved, for example, is but a drop in the bucket for steel makers in general, though in a few special instances—notably Bethlehem Steel and Baldwin Locomotive's Midvale subsidiary—the effects are somewhat more noticeable.



Wide World.

"Big navy policy" speeds production of big guns, shown here in navy storage yard, Washington, D. C.

The remarkable showing of the machine tool industry in May, when new orders showed the best month to month gain since December, 1936, and volume of new business placed was the largest for any month since April, 1937, was undoubtedly due in good measure to demand of a military nature. The trade association's index of new orders is no longer broken down to show both foreign and domestic business but it seems altogether likely that recent increases in demand have come from both this country and abroad with overseas orders probably contributing the greater part of the increment. The manufacture of automatic rifles, machine guns, field guns, gunfire controls and shells all require the extensive use of machine tools; also, aircraft makers, the Navy and its suppliers, as well as commercial shipyards, will probably be in the market for tools to a much greater extent in coming months and years. Such companies as Niles-Bement-Pond and Ex-Cell-O Corp., making tools, jigs, gauges, etc.; National Acme, largest domestic producer of screw machines and parts; Bullard, with its important stake in the heavier automatic machine field; and L. S. Starrett, outstanding among manufacturers of gauges and measuring instruments, have undoubtedly begun to feel the effects of world wide rearmament and will feel them to a much greater extent from this point forward.

As to what extent domestic business at large may respond to world armament expenditures, indications are that, in terms of additional sales volume, not a great deal may be expected. Some orders from abroad may be counted on—in late April 100,000 tons of hot-rolled steel sheets for British air raid shelters were ordered in this country—but, barring an outbreak of hostilities, it is doubtful if these will reach sufficient proportions to have an important effect on our economy as a whole. Nor is our own armament program likely to involve enough concentrated spending to influence greatly industries other than those already discussed.

But there is a factor other than that of physical sales volume which will bear consideration; namely, that of raw material prices. It is now generally conceded that armament buying was an important contributing influence in the commodity price bulge of late 1936 and early 1937 and it is not inconceivable that further aggressive buying of such major war staples as rubber, tin, copper and so on might, given other factors conducive to such a development, bring about a similar rise within the next year or so. Should this be the case, the effects on general business activity in this country might well be greater than those deriving solely from orders placed for ordnance, armor plate and other primary instruments of war. It is doubtful if a rise in commodity prices would be long under way before forward buying by industrial purchasers would make its appearance and, if carried far enough, the result could be quite stimulating.

There is, of course, the final question of what the effects of armament spending would be on our domestic economy in the event of war and assuming that this country does not become involved. The answer is, of necessity, highly conjectural and involves a number of assumptions. But of two things, at least, it seems that we may be reasonably certain. (*Please turn to page* 360)

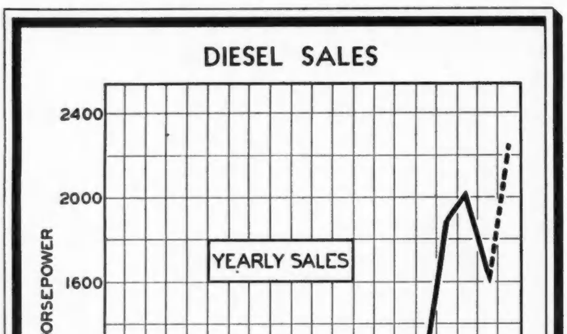
Sales Nearing Record High

Which Diesels are Ready to Show Profits?

BY STANLEY DEVLIN

JUSTLY credited with being one of the most dynamic of the younger industries, the Diesel engine industry has, in terms of technical progress, horsepower sales and public acceptance, amply fulfilled the glowing predictions which were being made eight and ten years ago. On the other hand, investors and speculators who believed that they saw in the promise of the Diesel engine industry an opportunity for substantial profits for those who were in "on the ground floor" have had little to show for their foresight. And it must be admitted that the Diesel industry, as such, has as yet despite its steady progress produced no outstandingly successful company through which the investor might participate directly in the industry's growth.

From an investment standpoint, the Diesel industry has been, and still largely is, a "back-door" proposition. That is to say, those manufacturers which have emerged as leaders in the production of Diesel power units have developed the Diesel principally as a complement to other products comprising the actual basis of their business. For example, Caterpillar Tractor which for several years has accounted for the largest aggregate horsepower sales of Diesels is essentially a manufacturer of tractors, having developed its Diesel output as an economical source of tractor power. Other large Diesel manufacturers including General Motors, International Harvester, Chrysler Corp., American Locomotive and Fairbanks, Morse, also are more prominently identified with other industrial fields than they are with Diesel engines.

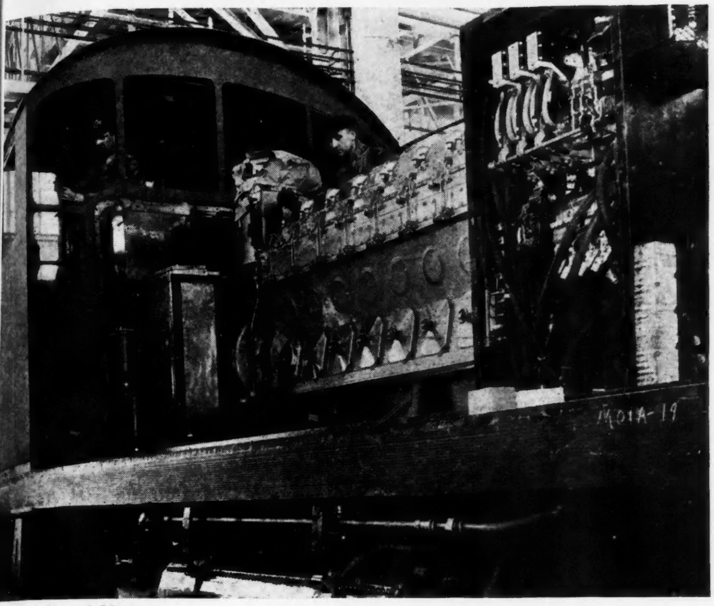


The fact, however, that the bulk of Diesel production is concentrated with a handful of large and successfully established companies has the effect of simplifying the choice of mediums for the investor seeking a stake in the industry. The usual pattern followed by young industries ballyhooed by potentially spectacular profits is a rapid mushroom growth in their earlier stages. New companies, inadequately financed and equipped spring up over night and disappear almost as quickly until eventually leadership and success becomes lodged with a few companies. Obviously this is a process of evolution which is fraught with considerable risk to the investor and speculator alike.

If the Diesel industry affords scant opportunity for the long shot speculator to exercise his talents, it nevertheless embodies numerous factors which should warrant the attention of more thoughtful investors.

Although much of the dollars and cents progress of the Diesel industry in late years has been obscured and hidden in the consolidated earnings reports of leading Diesel manufacturers, there is available, however, ample evidence that the industry has been forging steadily ahead. Yet it is not necessary that one be endowed with exceptional visionary powers to see that the industry has but barely scratched the surface of its potential market.

So far as the depression of the early '30's affected the Diesel industry, it was of comparatively brief duration. Sales declined sharply from their 1929 peak to less than 100,000 horsepower in 1932. But by the end of 1934, however, sales were setting new high records, with the



Courtesy General Motors

A diesel switching locomotive nearing completion in the plant of Electro-Motive Corp., a General Motors Subsidiary.

total horsepower in the latter year nearly doubling the 1929 figure. In fact from 1932 on, the sales chart pointed almost perpendicularly upward and in 1937 the all time peak of some 2,000,000 horsepower was set. Few if any industries, over the past eight years, can match this rate of growth.

Aside from their measure of growth, these sales figures are additionally significant in that they fully support the contention that the Diesel engine is no longer a specialized product with a limited scope of application and use. Engineering refinements have greatly increased the versatility of the Diesel engine, the range of sizes has been appreciably extended and improved production methods have resulted in lower prices. All of which has effectively improved the competitive position of Diesel power, and although the gasoline motor still rules supreme, the Diesel engine is invading the field of the gasoline motor with increasing success.

The exceptional operating economies possible through the use of Diesel power have been the Diesel's strongest selling point. Using oil for its fuel similar to that used in the average home furnace, the cost of which is about 7 cents a gallon as compared with 12 to 18 cents for gasoline, the savings in the cost of fuel consumption is apparent. Moreover, the Diesel in its present stage of development utilizes its fuel much more efficiently than the average gasoline engine. Mileage obtained from Diesel fuel in a three-ton heavy duty truck, for example, may average better than 40 per cent higher than from the use of gasoline. The greater economy of the Diesel is not a promise, it is a proven fact. Such being the case, why is it then that Diesels, particularly automotive and truck installations, are not more numerous than they are?

In the United States, at least, the appeal of more economical operation has not been as strong as it has been in Europe. Gasoline abroad is much more expensive than it is in the United States, supplies are limited and not always as readily accessible. Another factor which has retarded the installation of automotive Diesels in the United States has been the higher initial cost, as compared with a gasoline installations. Diesel's rugged construction resulted in a much heavier unit in relation to horsepower than necessary in the gasoline motor. By comparison with the gasoline motor, Diesels have been at a disadvantage from the standpoint of flexibility, acceleration and retardation.

In recent years, however, engineering skill has done much to overcome these objections to Diesel power for heavy duty trucks and busses. Particularly notable has been the marked reduction in Diesel weights. Chrysler has developed a Diesel for use in its Dodge trucks which develops a maximum of 95 horsepower but which weighs only 1,200 pounds. Only a few years ago the average Diesel weighed 300 to 400 pounds per horsepower.

The initial cost of the Diesel engine is still high in relation to gasoline installations, a condition which has the effect of limiting installations to bus and truck operators with equipment subject to a high constant-use factor. Only in heavy duty operations with relatively high annual mileages can the economy of the Diesel be most effectively developed. Leading manufacturers of Diesels for automotive use are frank to admit this but are not in the least dismayed, for their potential market is much less circumscribed than one might suppose offhand.

For one thing, manufacturers have been marked headway in lowering production costs. Heretofore, Diesel manufacture has been largely on a "custom" basis, each unit being designed to do a particular job or fit a particular installation. However, it has been found possible to apply large scale production schedules to truck and bus Diesels, with a consequent savings in costs. Moreover, the possibilities in this direction of further manufacturing economies are probably not exhausted.

Some measure of the po- (*Please turn to page* 363)

Leading Manufacturers of Diesel Engines

American Locomotive	Mack Trucks
Caterpillar Tractor	Hercules Motors
Chicago Pneumatic Tool	Waukesha Motor
Cooper-Bessmer	Worthington Pump
Chrysler Corp.	National Supply
General Motors	Baldwin Locomotive
Fairbanks Morse	Ingersoll-Rand

International Harvester

The Stockholder's Guide

— Depreciation as Key to Profits
— Model Corporate Reports

Conducted by J. S. WILLIAMS

THE Strand Hotel in London reported earnings last year of £123,000. In the previous year earnings were also £123,000, and the same for each of several years before, never varying by so much as a shilling. This is the logical extension of an attitude which affects the reported profits of many American companies and which causes much confusion in the minds of stockholders who are trying to get at the facts behind the figures in earnings statements. Any of our big industrial corporations could achieve absolute (apparent) stability of earnings by raising its depreciation charges sufficiently in good years and lowering them enough in bad years to wipe out all fluctuations in net. None of them go so far, but almost all consider other factors than the true theoretical depreciation rate of their property when deciding upon the amount of this charge against income. The purpose is logical but the result is frequent misunderstanding on the part of anyone unfamiliar with accounting practice.

Hidden Adjustments

The best way to understand the effect of variations in depreciation charges is to see them in operation. Chrysler Corp., for example, showed net income in the first quarter of the current year amounting to $11,638,000. This was after provision of $7,515,000 for depreciation and amortization. The report made a fine comparison with that for the first quarter of 1938 when only $2,110,000 net income was shown. But if depreciation and amortization had been charged this year at the same rate as a year ago, the profit for the first quarter would have been not $11,638,000 but $16,412,000.

Or to look at the same process in reverse, compare last year's first quarter with that of the previous year. Sales in the first three months of 1937 were good and so were profits, with depreciation put at $6,404,000. When the company's business fell to less than half its earlier levels in the March quarter of 1938, depreciation charges were reduced to $2,741,000. If they had been kept at the same level as a year earlier, instead of a *profit* of $2,110,000 for the quarter Chrysler would have shown a *deficit* of $1,553,000.

The difficult part of the problem is that no one can say with any finality what the correct figure for depreciation would be or even what is the precisely correct method of calculating it. Chrysler Corp. obviously believes that a high rate of operations takes more from the value of its assets than does a low. Another company might find the same fact true but in much smaller degree, depending upon the nature of its business and whether or not it had a large proportion of equipment depending for its length of life upon the amount of use it received rather than the number of years it served. In both cases, of course, there would be a perfectly legitimate desire to state conditions conservatively, and this would tend toward the overstatement of extremely poor earnings as well as toward the understatement of extremely good earnings. It is up to each observer to make his own allowances for this almost universal tendency, and the depreciation charge is the place to look for "hidden" adjustments of profits.

The methods of calculating proper depreciation allowances are innumerable, with each asset actually entitled to separate treatment. In practice assets are grouped into broad classifications and then written down according to their expected life by one of four general methods. The straight-line method of calculating depreciation allows for equal annual charges over the life of the property. The fixed percentage method provides gradually diminishing depreciation charges; the annuity method gradually increasing charges. Finally the problem is handled by making irregular allowances, depending possibly upon revaluations of the assets, use of the property, or other factors. Anaconda Copper depreciates its metal-producing plants on a unit of production basis, thus writing them down more rapidly in prosperous times than in slumps, and coming back to the widespread tendency to adjust earnings away from sharp variations.

Obsolescence is closely tied in with this subject, extremely important to earnings results but even more difficult to calculate than depreciation. Where conditions will allow, the best provision against obsolescence is an aggressive research program, in which case there may be no necessity for additional charges against income. Otherwise, conservative policy is to insure against this

factor by keeping the working life of the properties low in figuring writeoffs, thus creating a hidden reserve for the unexpected in the form of improvements which would outmode present equipment. Again the observer must be alert to gauge the size of the hidden reserve, if any, and the extent to which earnings are being understated during its creation.

An interesting example of the workings of the depreciation account is afforded by the Commercial Solvents balance sheet. It shows fixed assets divided into two main classes—those acquired before the end of 1932 and those acquired after that date. Land, buildings and equipment acquired before the end of 1932 are carried at cost of $7,205,411, less a depreciation reserve of $7,205,410, giving these assets a book value of $1. Many companies decided during the depression that extraordinary writedowns of fixed assets had become necessary, principally because they had been built or acquired during the boom period at higher than subsequent costs or values. The effect upon balance sheets of these companies was conservative in the extreme, since in many cases business recovery brought back the value of the assets to far above the reduced figures on the books. Yet the effect upon earnings statements was away from conservatism, once business and values recovered. Using the same method of calculating depreciation on much smaller book values, the companies were able to charge less to this reserve though the assets creating the earnings were unchanged.

One of the bothersome points involved in the subject is that very few corporations of any size use the same depreciation charges in their tax returns as in their reports to stockholders. The reason is that the Government is not interested in seeing the fullest possible provision made for future contingencies; its object is to tax the latest year's income in full. Where a property purchased as a going concern is being written down to exclude such intangibles as good will, the tax collector may sympathize with the objective but rule out the item as a charge against current earnings. Therefore most soundly managed enterprises will record heavier depreciation charges on their own books than are allowed on their tax returns.

A depreciation reserve may be carried on the liability side of the balance sheet or it may be deducted from the assets for which it provides. In either case it represents purely a bookkeeping item unless a fund is actually set aside in cash or investments. The distinction is unimportant where working capital is ample, or where earnings have been devoted to the purchase of new assets which will create additional earning power to replace that which is eventually to be lost through retirements. But checking on the situation in this respect is the necessary final step in interpreting the significance of depreciation charges and reserves to a company's future.

Model Corporate Reports

It is still news when a company decides to make a real effort at getting a picture of its operations before its stockholders, but more of them are doing it every year. They find that it pays to furnish more information and it also pays to make it more palatable to future readers who, no matter how great their interest in the enterprise, are not equipped to analyze long columns of figures. The best of the new type of reports give the figures then boil them down into the salient facts or give them life by means of charts and diagrams. Such progressive treatment of stockholders is doing a great deal to heal the breach caused by depression disappointments, and it is a greater urge upon the reluctant companies to fall in with the trend than any amount of criticism and denunciation.

It is significant to note that the managements most willing to take the owners into their confidence are likely to be the ones most aggressive in conducting their companies' affairs, most alive to the need for constant research and most aware of the dangers of sitting back and waiting for business. As a practical test of this assertion, any reader might take the reports that have reached him over the last few months and compare them for these qualities. The companies with something to be proud of will be most apt to tell what they are currently doing. Others will stick to the old rules of the game which consisted mainly in telling stockholders "no more than was good for them" and avoiding any chance of embarrassing questions at the next annual meeting.

Monsanto Chemical has been a leader in realizing its duty to the owners of the business. (Incidentally, supplying a ten-year comparative record of all income and balance sheet figures is pleasant when last year's profits are more than double those of 1929.) This company went so far as to make a study of who its stockholders were, classifying them in va- *(Please turn to page 362)*

MODEL CORPORATE REPORTS

They should be—

Frequent . . . at least quarterly, supplemented if possible by monthly figures on orders, backlog, etc., and whenever necessary by discussion of special factors.

Prompt . . . for most companies, annual reports within two months of the year-end; quarterly figures somewhat sooner.

Regular . . . where unusual delays occur, they should be publicly explained and a new date set for issuance.

Complete . . . omitting no significant information except in accordance with a general policy for which reasons are given.

Frank . . . interpreting items that are not easily understandable; showing comparisons with figures for previous periods.

Interesting . . . with vital facts brought out, new developments stressed; avoiding the deliberate dullness which is supposed to discourage unwanted stockholder interest in company affairs.

Present and Future Leaders in Automobile Accessories

Earnings Will Be Better

BY MONROE E. MARSHALL

Closely identified with the automobile industry, manufacturers of automobile equipment and accessories depend in a large measure upon the volume of automobile production and sales. If this seems to be stating the obvious, it is nevertheless the key factor in gauging the prospects for equipment manufacturers. Many readers are doubtless aware that many of the leading automotive accessory companies in recent years have sought relief from complete dependence upon virtually a single customer by expanding their activities into other fields more or less divorced from the automobile industry. These efforts have been attended by varying degrees of success, without, however, changing the basic complexion of the industry and the fortunes of equipment manufacturers are still largely determined by their contracts with leading automobile and truck manufacturers.

At the same time it does not necessarily follow that because the automobile industry as a whole is having a good year all equipment companies will share proportionately. Nor is it to be inferred that those companies which have sought diversification in other than automotive fields may do little if any better than other units operating in a more circumscribed field. The chances are that if the automobile industry is having a good year, other industrial fields may be similarly favored, giving those companies with a diversified output a double-barrelled opportunity to show good earnings.

While it has been the past experience of the automobile equipment industry as a whole that operations from year to year may be uniformly good or bad, there is likely to be considerable difference in the showing of individual companies. The more severe variations from the average will reflect for the most part shifts in contracts at the start of the new model year, while lesser variations are likely to reflect the competitive status of a supplier's customers among automobile manufacturers. In recent years price factors and labor difficulties have intervened in a number of cases to mar what might otherwise have been a profitable year. In short, it rarely suffices to determine that the outlook for the industry at any particular time is either good, bad, or indifferent and conditions favorable to the industry as a whole may conceivably fail to find a counterpart in the showing of a particular company.

It is possible, however, to review the industry as a whole, arriving at conclusions which should prove an effective force in the showing of the majority of parts makers.

In a year of rising automobile production, those companies specializing in original equipment are likely to have an important advantage over companies which are largely dependent upon replacement demand, although over a more extended period of time the dollar volume of replacement sales not only runs ahead of original equipment sales but is attended by a greater degree of

Courtesy General Motors

With about 3,500,000 new cars coming off the assembly lines this year, parts and equipment suppliers are promised a substantial recovery in sales and earnings.

stability. In periods of restricted production of automobiles and trucks independent parts makers are likely to show a disproportionate decline in sales. A poor automobile year is likely to find such large manufacturers as General Motors and Ford producing a sizable proportion of their equipment requirements in their own plants to keep their forces intact. As a matter of fact General Motors is itself the largest manufacturer of automobile parts and accessories. But while both Ford and General Motors have been steadily reducing their dependence upon outside suppliers, both companies still allocate a large share of their equipment needs to independent suppliers, a policy which is in the nature of insurance against labor difficulties and other problems which might arise to interrupt production schedules. Naturally, in a year of rising automobile production independent suppliers will garner a greater share of the business. Although all of the leading automobile and truck manufacturers make some portion of their equipment and accessory needs, none is as independent of outside suppliers as Ford and General Motors.

It has been estimated that a year in which 3,000,0000 or more automobiles and trucks are assembled will be a profitable one for most equipment companies. Production of less than 2,500,000 units will find many of them in the red. Last year, it will be recalled, with automobile production dropping just under the 2,500,000 figure, virtually all equipment manufacturers suffered a severe slump in earnings and not a few reported losses.

This year, however, will tell a different story. While automobile production is now tapering off sharply in anticipation of model change-overs (scheduled almost a month earlier than last year) and new assemblies in July and August will be sharply under the average for the first and second quarter, September will mark the beginning of a seasonal upturn. Total production for the full year will depend in a large measure on the sales reception accorded 1940 models, but at the present time a figure of 3,500,000 units appears to be well within the realm of possibility.

On the strength of this prospect, equipment manufacturers stand to recover a substantial portion of their 1935-36 earning power. In the first quarter of this year shipments of parts and accessories to be used for original equipment rose some 65 per cent from the 1938 level. As a consequence a substantial aggregate profit was shown by leading equipment manufacturers, contrasting markedly with an aggregate loss in the first quarter a year ago. Only a handful of smaller companies showed a loss this year. Automobile and truck production in the second quarter, while somewhat under the first quarter, was probably between 950,000 and 980,000 units. This would represent a gain of upwards of 50 per cent from the June quarter of last year. Gains for equipment manufacturers should be correspondingly good. Third quarter results will reflect the lull in automobile production, but equipment deliveries should start to turn upward in August and from then on may well be accelerated appreciably through the closing months of the year. Equipment supplies in the hands of assemblers have been allowed to run down and stocks are regarded as below normal. *(Please turn to page 360)*

Leading Automobile Equipment Companies

1929 and Today

Company	Net Income (millions) 1929	1937	1938	Earned Per Share* 1929	1937	1938	Divs. Paid 1938	Recent Price of Common
Bendix Aviation	7.4	2.3	0.2	3.65	1.08	0.07	None	22
Borg-Warner	7.7	8.4	d0.02	3.05	3.63	d0.01	0.25	22
Bower Roller Bearing	0.2	1.2	0.5	0.84	4.07	1.50	1.00	26
Briggs Mfg.	2.4	9.4	0.8	1.21	4.75	0.42	1.00	19
Doehler Die Casting	0.8	1.0	0.05	4.19	3.46	0.19	0.20	14
Eaton Mfg.	1.5	2.6	0.02	5.15	3.65	0.03	0.25	22
Electric Auto-Lite	10.5	4.2	1.8	11.37	3.43	1.53	1.00	30
Electric Storage Battery	7.9	2.1	1.0	8.77	2.32	1.05	2.00	26
Houdaille-Hershey	2.8	2.1	0.6	4.65(b)	2.14(b)	0.20(b)	None	11(b)
Kelsey-Hayes	(a)	1.0	d0.9	(a)	1.79	d5.19	None	9
Libbey-Owens-Ford	3.3	10.5	3.9	1.87	4.19	1.57	1.25	45
Motor Wheel	3.5	1.8	0.6	4.28	2.11	0.73	0.40	14
Spicer Mfg.	2.1	1.3	0.3	5.09	3.61	0.29	0.50	23
Thompson Products	1.2	0.9	0.4	4.57	2.92	1.33	0.25	22
Timken Detroit Axle	1.5	1.8	0.8	1.28	1.69	0.70	0.50	12
Timken Roller Bearing	14.2	10.8	1.4	5.88	4.49	0.59	1.00	39
Motor Products	2.1	2.1	d0.6	10.42	5.49	d1.58	None	12
Raybestos-Manhattan	3.2	1.9	0.3	4.83	3.04	0.51	0.93	19
Reynolds Spring	0.1	0.2	d0.4	0.15	0.76	d1.50	None	6
Midland Steel Products	2.6	2.3	1.5	10.32	6.15	2.45	1.00	22
L. A. Young Spring & Wire	2.2	1.5	d0.7	5.36	3.61	d1.71	None	11

(a)—Reorganized 1933. d—Deficit. *—Based on present capitalization. (b)—Class B stock.

As the Trader Sees Today's Market

I. Significant Figures on Short Position
II. Conservative Speculation vs. Speculative Investment

BY FREDERICK K. DODGE

At the beginning of the rally which extended for two months from the April 8th lows it became noticeable that a number of stocks were loaning at premiums, contrary to their usual habit. U. S. Rubber was one of these issues, one that ordinarily loans freely because of its relatively large floating supply. Since a premium results mainly either from an increase in the short position or a decrease in the floating supply, and there was no reason to credit the latter cause, a logical assumption in mid-April was that the premiums being quoted signified a suddenly enlarged short interest and a strengthened technical situation. The stage was set for a rally based merely on short covering provided circumstances became at all favorable even in a negative way.

That is just about what happened, although it would be a mistake to tie the whole move in with the moderate amount of covering that went on. Share totals in the short-selling statistics are not far above the low points since figures have been tabulated, so small that even in these days of slender trading volume they seem at first sight unimportant. The point to be remembered is that with the market undecided, extremely thin on both sides, and waiting for any sort of impulse in either direction, short covering can at times supply spurts of concentrated and determined buying sufficient to change the whole trend temporarily at least. Then if nothing happens to destroy the momentum created it may persist for weeks before the technical position becomes vitiated or some other factor intervenes.

Information Now Available

The subject is obviously important for the trader, whether or not he ever takes the short side himself; and the long-term investor will also find familiarity with it worth while, for reasons that will presently appear. Fortunately a great deal of information is now available to supply us with clues to what is happening on the short side, and it is our own fault if we fail to make use of it.

Starting somewhat over a year ago the New York Stock Exchange began the publication of monthly data on the short positions in individual stocks, as well as totals for all listed issues combined. Figures are released only on issues in which the short position exceeds 5,000 shares or has been changed during the month by at least 2,000 shares. Of the 1,256 issues listed on the Exchange a year ago there were 65 which fulfilled these conditions and for which figures were given. Four of the most interesting have been charted here, using the short position as a percentage of the number of shares outstanding for added significance. The total short interest on the Exchange decreased in the year to May 31 from 1,343,573 shares to 667,804, almost exactly 50 per cent. At the end of March of this year, however, the figure was 529,559 shares, to be enlarged in the month of April by almost 133,000 shares. If the total position were known day by day, it would probably be found that the short interest was larger in the middle of April than at the end, so that selling of this type was very heavy in the early part of the month—the last stage of the decline—and covering began with the upturn in prices.

Every sale of stock not owned must be followed by some arrangements for securing certificates to be delivered to the buyer. In the past it was customary to borrow stock, putting up the full market price as security, and receiving interest on this amount in return for giving the lender of the stock the use of the money. When demand outran supply in a particular issue, competing borrowers might offer to forego the interest payments on the cash they were to put up, in order to induce owners and brokers to loan the stock under their control. At such times the individual issues were spoken of as loaning "flat," meaning without interest. Today all issues for which there is a demand loan flat, except where the borrower offers an additional inducement in the form of a premium, ranging upwards from a minimum of a dollar a day for each hundred shares.

Investors whose stock are in their brokers' hands will occasionally find opportunity to increase their income by having their stocks loaned at premiums. Rarely nowadays does the fee range higher than two or three dollars per day for a round lot, but if loaned in large quantities or if the premium is maintained over any length of time the return can be substantial. No risk is attached since the full market price is posted as security for return of the stock, and any change in the price is followed by adjustment of this sum to "mark to market."

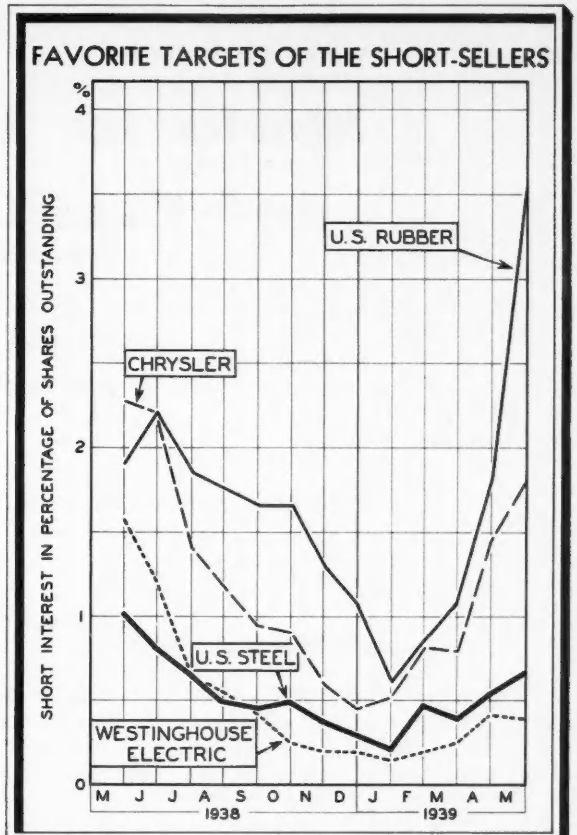
Premiums tend usually to eliminate themselves, in that the extra inducement brings stock into the loan crowd that had been put away in strong boxes. An issue in which there is habitually a large short interest is not so likely to loan at a premium as one in which the short-

selling is out of the ordinary or sudden. Should the short-selling be spread over the whole market in a sharp wave, then for at least a short time there may be premiums on a dozen or so of the most prominent issues. Back in 1931 and 1932 premiums were large and were applied to a great number of stocks, indicating a strong technical position which was powerless to offset the discouraging trend of earnings. The same thing might be witnessed in a future market, so that the existence of premiums is not in itself any sort of guaranty that the trend is due to turn upward. It does indicate, however, that with all other factors out of the way the market would tend to be helped in the near future by closing out the positions being taken, by short-covering, in other words. If it comes as a result of decreased floating supply rather than of increased selling, that too is bullish taken by itself. It means that more and more owners are taking their stocks out of their brokers' hands and putting them in safe places, determined to hold them for the pull regardless of market action. Enough individual decisions of this sort, followed by any demand for stocks from traders, sets the stage for a broad upswing.

An additional means of checking on the amount of short-selling going on is afforded by the figures now being released by the S E C. In using these figures it should be remembered that they give the daily amount of short-selling which is a quite different thing from the short *position*.

For example, in the first full week reported, that ended June 10, total short sales in round lots on the Big Board were 119,400 shares, out of a total volume of 3,091,920 shares. This by no means indicated that the short position had increased by anything like 119,400 shares, since a large part of these sales were covered within the week or the day. Almost 70 per cent of the short-selling in that particular week, which cannot be assumed to be typical, was done by members of the Exchange. Specialists alone accounted for 44 per cent of the bear sales, other transactions initiated on the floor for 17 per cent, and other transactions of members initiated off the floor for 9 per cent. Specialists are particularly apt to go short and cover within the same day in the course of maintaining a steady market for their issues. The total amount of short-selling is therefore a far less significant figure than would be more frequent data on the open short interest. An alternative would be the requirement that covering purchases be identified at the time of execution and reported separately from other purchases in the S E C tabulations.

Another clue to technical strength which will probably prove valuable in the future is contained in the reports on odd-lot transactions issued by the S E C. Beginning with the first week in June the regular reports have included a breakdown between sales for the long and the short account in less than round lots. After considerably more background becomes available it will be possible to measure roughly the contrast, if any, between public or what might be called amateur opinion of the market and professional opinion as evidenced by short sales of members. Realizing the importance of the subject the S E C is also collecting figures on short-selling originating abroad and these should be ready for regular publication within a short time. Traders will find it profitable to keep in close touch with new information of this kind as it becomes available; otherwise they will be neglecting some of the most valuable and informative gauges of the market's technical position.



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Conservative Speculation as Alternative to Speculative Investment

It was recently pointed out in the Investment Clinic that high price alone does not assure investment quality. The application was mainly to bonds which are selling at low yields and very possibly giving a false impression of their true merit; an impression due more to ease in money rates than to any quality possessed by the issues. The same mistake can be made in common stocks which because of attractive points in their record or in their industry's condition sell at price-earnings ratios indicative of high investment quality. Needless to say the mistake hinges directly upon the general level of the market at the time an issue is being considered; there are times when the most over-rated stocks on the board are real bargains. This is a question that can never in practice be separated from broad market policy. But the trader or investor should ask himself frequently if he is handling his account as conservatively as he thinks.

Take two portfolios each with securities totaling $100,000 in current market values. One is fully paid and also contains a small cash balance; the other has against it a debit of $25,000. Most people would not hesitate to say that the first account is being handled more conservatively than the second. (*Please turn to page 360*)

Stocks for Income Today and Profits Tomorrow

Seven Sound Issues Identified with Basic Industries

Selected by THE MAGAZINE OF WALL STREET STAFF

International Nickel Co.

The shares of International Nickel Co. are justly rated one of the better grade common stock investments. Credited with producing about 90 per cent of the world's nickel requirements, the company is a near-monopoly. In addition, however, International Nickel is the foremost producer of platinum metals and is the fifth largest producer of platinum. The company also engages in large-scale fabricating operations, including the manufacture of nickel and nickel alloys which are distributed under the widely-advertised trade name, "Monel." Proven ore reserves are enormous and finances are virtually impregnable. The management has thoroughly demonstrated its ability and research activities conducted by the company have, in a large measure, been responsible for consistent growth in recent years. As recently as 1937, earnings were at the highest level in the company's history.

In 1938, world consumption of nickel suffered a recession from the peak volume reached in 1937 and the estimated total of 204,000,000 pounds compared with 240,000,000 pounds in 1937. Of the total consumption of nickel last year, International Nickel's sales accounted for 164,378,245 pounds, which compared with 207,700,943 pounds in 1937. Notwithstanding the severe business recession, particularly in the United States, which is the largest consuming outlet for the company's products, nickel consumption last year reflects no small measure of credit upon the success of the company in developing new uses for the metal. As recently as 1933, the company's sales were less than 75,000,000 pounds. Industrial consumers of nickel plate include the steel industry, which accounts for about 60 per cent; brass copper mills, 14 per cent; alloy manufacturers, 13 per cent; electroplaters and chemical manufacturers, 8 per cent; and iron and brass foundries, 5 per cent. In its finished form, nickel is used in a much wider range of industries, including building, aircraft, automobile, petroleum, food, electrical equipment, paper and textile. Shipments of copper by International Nickel last year amounted to 292,129,727 pounds, a slight increase over the 1937 level, foreign demand apparently having been more than sufficient to offset the reduced takings in the United States. Of total world shipments of copper last year, International Nickel accounted for approximately 6½ per cent.

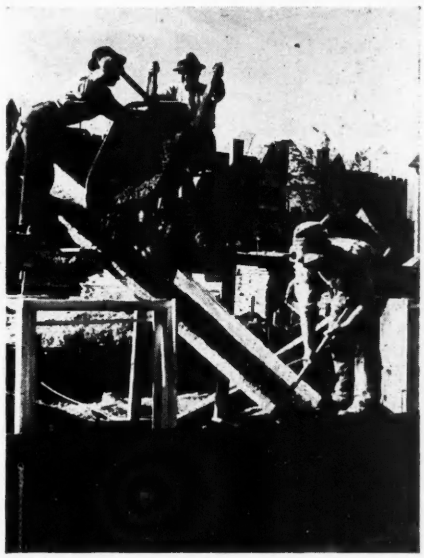
For all of 1938 International Nickel reported dollar sales of \$107,194,723, comparing with \$174,461,254 in 1937. Net profit last year of \$32,399,470 was equal, after preferred dividends, to \$2.09 a share on 14,584,025 shares of common stock. In 1937 net income was \$50,299,624, equivalent to \$3.31 a share for the common stock. It is International Nickel's policy to allot substantial sums for capital expenditures each year, the total outlay for this purpose in 1938 amounting to \$10,750,000. This year expenditures will approximate \$10,600,000. As a result, however, of outlays for improved operating equipment and methods, the company last year was enabled to effect a reduction in operating costs of more than \$2,000,000.

Sales in the first quarter of the current year picked up substantially, enabling the company to report a profit of \$9,547,300, or the equivalent of 62 cents a share for the common stock after preferred dividends. This compared with net profits in the final quarter of 1938 equal to 53 cents a share and 66 cents a share in the first quarter of 1938. As of March 31, last, current assets, including nearly \$43,000,000 cash and Government securities, amounted to \$81,762,548 and current liabilities were \$15,505,362.

The more promising outlook for general business activity in the United States augurs favorably for further gains in the company's earnings through subsequent months. The present dividend of 50 cents a share quarterly is being earned by a comfortable margin and continuance of this rate appears assured. Recently quoted around 46, to yield better than 4 per cent, the shares invite favorable consideration both for current income and longer term price appreciation.

Lone Star Cement Corp.

Lone Star Cement Corp. is the largest independent unit in the industry, having an annual capacity of approximately 24,000,000 barrels. Despite the fact that the cement industry has frequently suffered from excessive productive capacity and competitive problems arising from heavy shipments of foreign cement sold at lower prices along the Atlantic seaboard, the record of Lone Star over an extended period of time has been decidedly better than that shown by the industry as a whole. In this achievement, the company has been favored by certain fundamental factors, including a strongly entrenched competitive position and lower-than-average production costs. Safeguarding the company's strong competitive position are its numerous plants, strategically located both with respect to large consuming areas and raw material sources. Not only has this enabled it to alleviate the effects of sectional adversities, but has given its products an important freight differential. In addition to ten domestic plants, Lone Star Cement also has plants in Cuba, Argentina, Uruguay and Brazil. Foreign plants have been particularly profitable.



Gendreau

From an earnings standpoint, Lone Star Cement also has the advantage of a very simple capitalization. The last of the company's funded debt was retired in 1937 and at the present time there is no preferred stock or bank debt outstanding, capitalization consisting solely of 964,756 shares of common stock. At the end of last year, the company reported current assets of $11,910,556, including over $5,000,000 cash, while current liabilities were less than $2,000,000.

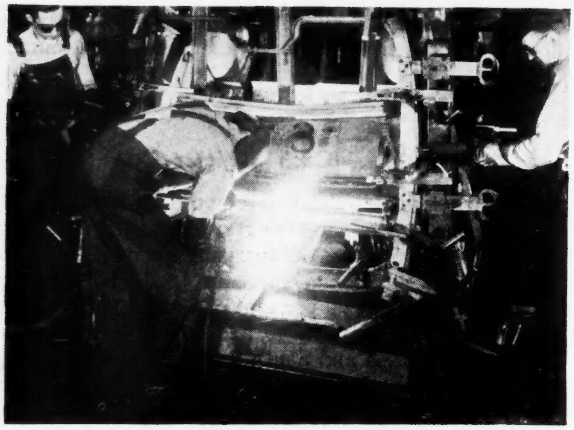
Last year the company's domestic plants operated at 42.6 per cent of capacity, with foreign mills at 72.3 per cent, an average of 52.3 per cent for all plants. This compared with an average of 55 per cent in 1937 and an average for the cement industry as a whole in 1938 of 41 per cent. Net profits reported last year totaled $3,125,379, a decline of about 23 per cent from the 1937 level. Applied to the outstanding common stock profits last year were equal to $3.25 per share, as compared with $4.24 per share in 1937. Profits receded somewhat further in the first quarter of the current year, equaling 67 cents per share, compared with 76 cents in the same months a year ago. For the full year, however, earnings promise to compare favorably with 1938 and may possibly be somewhat better. This prospect is predicated upon the sustained level of construction activity and new engineering contracts awarded. Failure of the company to fully earn the 75-cent quarterly dividend in the first quarter naturally places the present $3 rate on a speculative basis, although here again this company's excellent financial position warrants consideration. Recently quoted around 47, the shares appear to represent fair speculative value and afford a liberal yield—liberal even if some reduction is made in the present $3 annual payment.

National Cash Register Co.

National Cash Register Co. is credited with supplying about 90 per cent of the cash registers used throughout the world. In addition, the company's products include accounting machines and specialty products, normally accounting for about 20 per cent of total sales. Foreign sales account for between 40 and 50 per cent of total volume with British and South American markets being particularly important. Plants are maintained in Canada, Buenos Aires, Berlin and Tokyo. Of total domestic business, about 50 per cent is accounted for by replacement sales.

The nature of the company's business is such that sales naturally tend to fluctuate with the rise and fall of general business. Even more pronounced, however, has been the variation in earnings due in a large part to the presence of special forces. Operating and selling costs, for example, do not lend themselves readily to prompt adjustment in periods of declining sales. Earnings also, in recent years, due to the preponderance of foreign business, have reflected foreign exchange fluctuations and restrictions.

Since 1933 the company's operations have shown steady gains, culminating in profits of $3,920,667 in 1937, making that year the best since 1929. During the major part of 1938, however, the company's business volume ran behind 1937 and it was not until November that new business began forging ahead of the previous year. As a result sales for the full year dropped about $6,000,000 and net profit of $2,392,340 was equivalent to $1.47 a share, on 1,628,000 shares of capital stock, comparing with $2.40 a share earned in 1937. Sales in the first quarter of the current year totaled $9,012,928, excluding German, Austrian and Japanese sales of $1,897,050 compared with $9,154,668, exclusive of $1,568,719 German, Austrian and Japanese sales for the first quarter a year ago. Net in the first three months of the current year totaled $484,024 or the equivalent of 30 cents per share for the capital stock. In the corresponding period a year ago net of $608,196 was equivalent to 37 cents a share. Normally, however, the company's second and fourth quarters are the most active, and in June of this year combined foreign and domestic sales increased 41 per cent over June of last year. Domestic orders were up 37 per cent over June of last year, while overseas orders gained 45 per cent. In fact, new business recently has exceeded shipments, indicating a more active shipment and billing period during the third quarter than a year ago, when only 14 cents a share was earned.



Skilled mechanics at work welding the front of a Chrysler Body Assembly.

While the company's earnings for the full current year may not exceed substantially those shown in 1938, nevertheless current dividends of 25 cents per share quarterly should be earned by an adequate margin of safety. On this basis, the shares at 17 are available on an attractive yield basis. The major uncertainties in the company's longer range prospect revolve around the possibility of a European war, which, in view of the company's heavy dependence upon foreign sales, might conceivably result in drastic declines in sales and earnings. Any reasonable assurance, however, that a European war may be indefinitely deferred would doubtless justify substantially higher levels for the shares, tending to bring quoted values more nearly in line with current earnings and dividend prospects.

Chrysler Corporation

In point of total sales, Chrysler Corp. is now the second largest manufacturer of automobiles, having accounted for a larger number of new car sales than Ford in each year since 1935. In 1938, Chrysler Corp. accounted for nearly 25 per cent of total new car sales, compared with about 20 per cent for Ford and 45 per cent for General Motors. In a recent study made of the automobile industry by the Federal Trade Commission, it was shown that Chrysler Corp.'s low priced model—Plymouth—has been able to obtain a steadily increasing volume of business and to do so at a profit although its average selling price apparently has been consistently higher than that of its competitors. It was also shown that Plymouth had obtained a larger share of the automotive market last year at the expense of Ford. The same report also revealed the impressive competitive gains which have been made by Chrysler over the past decade. In 1929, Chrysler's total sales amounted to only about 20 per cent of General Motors' volume and about 21 per cent of Ford's volume. By 1937, Chrysler's unit sales were better than half as large as General Motors and almost equal to Ford. While the greatest gains in the company's sales were shown in its Plymouth model, every one of Chrysler's models sold in greater numbers in 1937 than in 1929. The Federal Trade Commission's report also revealed that Chrysler Corp. in 1937 made an average net profit per car of $48 which compared with $40 for General Motors and a loss of $7 a car for Ford. In 1936, Chrysler's average profit per car was $70.

Thus far in the current year, Chrysler's competitive gains have been at an even more vigorous rate. In mid-June it was officially stated that the company's retail sales of passenger cars amounted to nearly 27 per cent of all passenger cars sold in the United States against 23 per cent in the corresponding period of 1938. Compared with last year, Chrysler Corp.'s gain in passenger cars sold at retail thus far this year was 60 per cent. For the industry as a whole, other than Chrysler Corp., the gain was 34 per cent. Total retail sales of cars produced by the company in the first five months of the current year amounted to 338,876 units as compared with 212,338 units for the corresponding period of 1938.

Although the company's earnings over the past ten years have shown the wide fluctuations characteristic of the automobile industry, the company's strong competitive power has enabled it to show results much better than those of the average motor car manufacturer.

In the first quarter of the current year Chrysler Corp. reported the highest earnings for any first quarter in its history. Net profits totaled $11,638,290 and were equal to $2.67 a share for the common stock as compared with $2,109,969 or 48 cents a share in the corresponding period of 1938. The previous peak first quarter for the company was in 1936 when net amounted to $11,466,439, equal to $2.65 a share. On the basis of indicated sales, the probabilities are that for the first six months net will approximate $4.25-$4.50 per share for the common stock. Thus, in six months the company has been able to practically equal its showing for all of 1938 when $4.32 per share was reported. Moreover, the company thus far in the current year has paid dividends totaling $2.50 per share as compared with $2 a share paid during the entire year of 1938. A liberal dividend policy is characteristic of this company and one which is adequately supported by normal earnings and a strong financial position.

A speculative favorite, the shares of Chrysler Corp. at recent quotations of around 69 appear reasonably appraised in relation to the company's current earnings prospects, and with any sustained recovery in the general market as a whole, the chances are good that the shares of Chrysler Corp. will be well in the van.

American Smelting & Refining

American Smelting & Refining Co. is ranked as the largest smelter and refiner of non-ferrous metal ores, the company's leading customers including Kennecott Copper and St. Joseph Lead. In addition, American Smelting owns mines producing copper, lead, zinc, gold and silver. It has extensive foreign interests, principally in Mexico, Peru, Newfoundland, Canada and Australia. Substantial stock interest is also held in General Cable, Revere Copper & Brass, Mining Trust, Premier Gold and Federal Mining.

Despite the extreme cyclical variations to which the company's business is subject, American Smelting has been able to make a much more impressive showing earningswise than most of the rank and file of mining enterprises. Following deficits in 1931 and 1932, equal

to $2.09 and $4.96 a share, respectively, on the common stock, earnings in subsequent years recovered rapidly and in 1936 net equal to $6.85 a share for the common stock was shown. This was the most profitable year for the company since 1929. The following year, 1937, net declined moderately and was equal to $6.54 a share. The domestic business slump which occurred in 1938 took a fairly substantial toll of the company's smelting and refining volume, a condition which, coupled with lower metal prices, restricted net income to $10,611,808, compared with $18,285,425 in 1937. After allowing for dividends on the 500,000 shares of 7 per cent preferred stock, net available for the 2,191,669 shares of common stock last year was equivalent to $3.24 a share. Dividends aggregating $2.25 a share were paid in 1938.

American Smelting & Refining has a fairly substantial stake in Mexico—just how large it is not known, but last year Mexican properties contributed less than 18 per cent of total earnings. Recently, the company's management expressed the belief that the possible danger of expropriation of its properties by the Mexican Government has definitely passed. In no small measure, the company's earnings record of recent years may be attributed to substantial recovery of gold and silver ores. While recent Washington developments are favorable to domestic silver miners, they have been adverse to foreign properties and world prices have recently experienced a drastic slump. The probabilities are, therefore, that the company's Mexican properties will contribute even less to parent company earnings. Offsetting the latter condition, however, is the recent strength in the non-ferrous metals, notably lead and copper. The probabilities are that in the first six months of the current year, American Smelting will show earnings slightly in excess of the $1.53 a share for the common reported in the like period of 1938. On this basis, better than a 50 per cent coverage would be afforded present dividends of 50 cents a share quarterly, and additional assurance is to be found in the company's strong financial position. At the end of last year, current assets, including over $21,000,000 cash and government securities, amounted to $86,027,064 and current liabilities were $20,369,085. At the present time, the company has neither bonds nor bank loans outstanding.

Although frankly speculative, the shares offer a yield of 5 per cent, plus the possibility of substantial price appreciation with the benefit of any further improvement in general business.

Sears, Roebuck & Co.

While still retaining its title as chief ranking mail-order enterprise in the United States, Sears, Roebuck has also established itself as one of the foremost operators of retail department stores. In fact, so successful has the company been in operating retail units throughout the country that even in the large urban areas, Sears' department stores are successfully competing with older established organizations. Last year the store division contributed 62 per cent of the total business as against 38 per cent for the mail-order division and at the present time stores are earning more than the mail-order department. About 500 stores are currently in operation and two large class A department stores will be opened this year.

For the fiscal period ended January 31, last, Sears, Roebuck reported net sales of $501,676,644, compared with $537,242,403 in the previous fiscal period and $494,968,022 in the fiscal period ended January 31, 1937. Net income of $23,354,364 last year was equal to $4.17 a share on 5,588,030 outstanding shares of capital stock and compared with net profit of $30,828,248 or $5.58 a share on 5,526,943 shares for the previous fiscal period.

Thus far in the current year sales gains have been phenomenal and there is every indication that both sales and earnings may attain the highest levels in the company's history. In the four weeks ended June 18, sales of $53,107,759 represented a gain of more than 33 per cent over sales in the corresponding period of 1938. The June 18 period marked the eighth consecutive four-week period in which previous records with comparable periods were exceeded. Sales for the twenty weeks ended June 18 were up 23 per cent and were larger than in any comparable period in the company's history. Earnings in the first twelve weeks of the current fiscal year were double those for the corresponding period of 1938, a showing which promises to be easily duplicated in the second twelve-week period. On this basis, earnings for the first twenty-four weeks of the 1939 fiscal period promise to be equal to at least $2.60 per share for the capital stock.

In view of the exceptionally promising earnings outlook, not only is the present indicated dividend of $3 a share well supported but a sizable extra might well be forthcoming by the end of the company's fiscal year. Such action would be in line with the company's previous liberal dividend policy. Obtainable on a basis to yield 4 per cent, the shares at 75 appear to be conservatively appraised and offer a sound common stock investment medium and a fair return.

Commercial Credit Co.

Specializing in the financing of instalment purchases, Commercial Credit Co. is the third largest unit in that field. In recent years, the *(Please turn to page 359)*

The new modern facade of the Sears, Roebuck retail store in Glendale, Calif.

General Foods vs. General Motors

Growth and Stability Factors Contrasted

BY GEORGE W. MATHIS

There is an old saw to the effect that the market, in its composite wisdom and judgment, is always right. But the fact is that the successful investor must, in the long run, be even "righter." Take the case of General Foods and General Motors, both recently selling close to 43. The market's verdict, presumably based on all factors known and foreseeable that go to determine value, is that these two blue chips are of about equal worth. And yet we may be reasonably sure that the verdict a year or two hence will not be the same. Almost certainly the two issues will tend to diverge in price as current prospects of each company are translated into actual results and new prospects are reappraised by the market. The holder of either stock, however, if he contemplates an even switch, cannot bide the market's time; he must correctly foresee or anticipate what the market does not.

What $43 Will Buy

In General Motors		In General Foods
$1.18	1939 1st Quarter Earnings	$0.75
24.90	1938 Sales per Share	25.81
2.17	1938 Earnings	2.50
1.50	1939 Dividends to Date	1.00
1.50	1938 Dividends	2.00
18.58	1938 Year End Equity	11.88
4.65	1938 Year End Net Work. Cap(a)	5.24

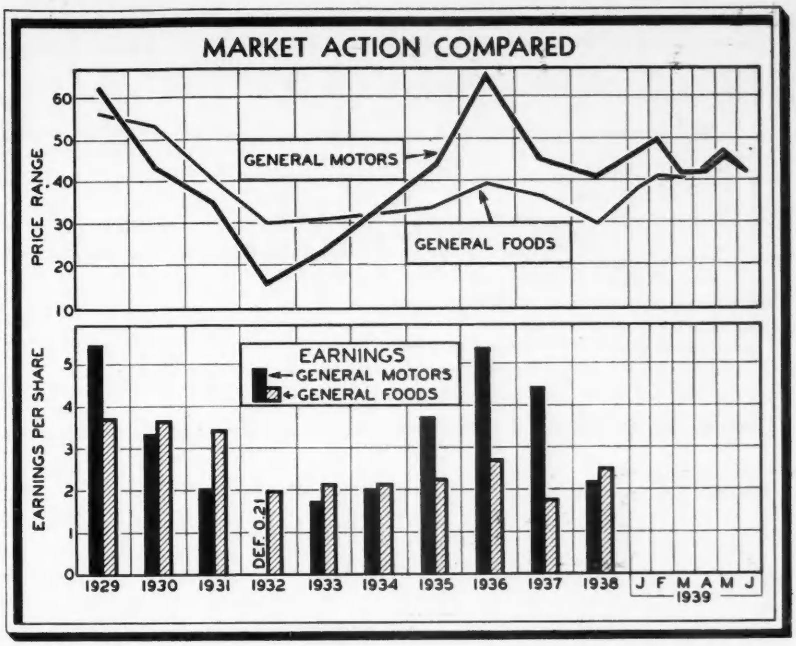
(a) Less par value of preferred

There are two ways of looking at the situation—one from a cyclical standpoint, the other from the angle of long term growth possibilities. As for cyclical, there are of course some very essential differences in the nature of consumer demand for the products of the two companies and corresponding differences in the extent to which operating results vary between good times and bad. Automobiles as well as most other products which General Motors manufactures, including electric refrigerators, ranges, vacuum cleaners, heaters and similar home appliances, are consumer durable goods and their purchase is easily deferrable in times of general business depression and declining consumer buying power. The same is even more true of the company's capital goods lines such as industrial air conditioning equipment; Delco commercial power plants and Diesel locomotives and engines for marine, truck and bus use. But General Foods, by way of contrast, produces and distributes the most essential of all consumer necessity goods—food. To be sure, its many widely advertised packaged lines—the company's specialty foods number more than 80 and are sold at retail through about half a million outlets in the United States alone—are not without competition, nor would the country starve without General Foods. The fact remains, though, that the average family's food budget is cut last and least when times are hard and, conversely, relatively little is added to the nation's dollar total of food purchases as times improve.

It is not surprising, therefore, that while General Motors' sales revenues declined 71 per cent from 1929 to 1932,, General Foods' probably did not decrease by more than 25 per cent (an estimate based on gross profit figures as the company did not report sales during the three years 1931-33). Similarly, it was not to be expected that the latter company could match or even approach the former's feat of approximately quadrupling sales between 1932 and 1937. When variations in net income figures are compared, the contrast becomes even more striking. G. M.'s 1932 net was less than one-tenth of one per cent of the 1929 figure while General Foods' was more than 53 per cent, the former's much higher proportion of fixed overhead to total production costs being largely responsible. In terms of common share results, cyclical variations approximate those of net income figures since neither company has any funded debt (operations of General Motors Acceptance Corp., with debentures outstanding to an amount of $100,000,000, are not consolidated with those of the parent company), and at current earnings levels preferred dividend requirements in each case amount to only a small percentage of net income.

Turning from the question of cyclical earnings fluctuations to that of secular growth possibilities, the problem arises as to what extent the record of the past decade can be accepted at its face value. Judged purely from a statistical viewpoint, neither General Motors nor General Foods measures up to the standard generally

required of a "growth stock" in that neither has succeeded in topping or equaling its best earnings of the late 'twenties though both have attained new sales peaks within the past two years. Of the two, General Motors might tentatively be considered to have the edge since its net income in 1936, best recent year for either concern, was only about 12½ per cent under its record 1928 figure while net of General Foods was still about 27 per cent short of its 1929 peak. But this presumption again is based only on statistical evidence. Not to decry the value of statistics, it is nonetheless evident that they reflect only what *has* happened, and that to accept this as indication of what is *going* to happen is to assume without qualification that established trends will continue despite possibly altered conditions. To do so in the case at hand would be to ignore the accumulating evidence that General Foods' Frosted Foods division may soon be contributing enough to the company's overall profits to place G. F. quite definitely in the category of "growth stocks."



New Profit Source for General Foods

When General Foods bought the Birds Eye quick-freezing process in 1929 and backed a radical innovation in food packaging and distribution, it knew it had a man sized promotion job on its hands but it could scarcely have known that it faced a decade of virtually uninterrupted depression in which to accomplish it. Whether the company would have gone ahead with its new venture had it known of the tribulations for all business enterprise that lay ahead is conjectural and beside the point; the pertinent fact is that it did, and that the job has been well done and the payoff is at length in sight. Early progress was slow for, it will be recalled, conditions between 1929 and 1932 were not generally conducive to a broadening consumption of luxury priced food lines, superior in quality though they were. By the latter year, however, 470 retail outlets were selling Birds Eye products. Subsequent years saw more rapid expansion; at the end of 1937 some 2,800 dealers had installed Birds Eye cabinets now familiar to an increasing number of housewives, and last year the total rose to 4,059. In 1938 G. F.'s Frosted Foods froze and packed over 72,000,000 pounds of assorted meats, vegetables and seafoods and the end is not yet in sight for it is doubtful if more than a small fraction of the potential ultimate market has been reached thus far. This phase of the company's business did not emerge from the red until 1936 but has since proved increasingly profitable and was at least partially responsible for last year's showing when General Foods was able to report per share earnings of $2.50 against $1.75 the year before.

Of course General Motors has not been missing many tricks either in the matter of developing new and promising lines to supplement its principal products. According to the F T C's recent study of the motor industry, about 40 per cent of G.M.'s profits now come from the manufacture of parts and non-automotive products. The company is one of the leaders in the Diesel field, especially in Diesel switching locomotives, and its Allison division, one of the few domestic organizations equipped to produce in-line, liquid cooled engines, has only lately figured in the news as a beneficiary of the Air Corps' decision to power a portion of the Army's additional planes with this type of motor. But the fact remains that General Motors has no single division or product of sufficiently dynamic possibilities to suggest the likelihood of a long term uptrend of earnings over and above that which may come from further gradual expansion of its present business in line with increased business activity for the country as a whole.

The conclusion to be drawn from all this is that General Motors will in all likelihood continue to show the wider cyclical swings of the two companies whereas General Foods, mainly by virtue of its Birds Eye division, may well prove the more interesting issue from a growth standpoint over a period of years and entirely apart from the inherent cyclical stability of its operations. The relative market action of the two stocks since 1929, as shown in the accompanying chart, is of interest in this connection. It wil be seen that the last time G.M. and G.F. sold at the same level was in 1934, a period which in many respects resembled that of the present. Then, as now, the pattern of general business activity was one of marked irregularity following a sharp initial rise from the trough of depression. Then, as now, the prevailing sentiment of business men and investors was neither that of deep despair nor expansive confidence but rather that of uncertainty and of misgivings tinged with hope. In the prosperity period that followed, the motor company outstripped the food concern marketwise, while in the ensuing depression the latter held up much better than the former. (*Please turn to page* 364)

For Profit and Income

Higher Silver

How the silverites in Congress, a relatively small bloc as such cliques go, have been able to accomplish so much for the special interest group they represent is a matter of awe and no little envy to even the most seasoned political champions of other much larger pressure groups. As a general rule their strategy is that of coalition and compromise, and their latest coup was no exception. Net result of the recent successful maneuvering of the silver state Senators is a higher Government purchase price for domestically mined metal—71.11 cents an ounce against the 64.64 cents figure that had been in effect since the beginning of 1938—and the principal gainers are Sunshine Mining and Silver King Coalition. At the 1938 production rate, the increase amounts to 49 cents per share annually for the former company which earned $2.45 last year. Using 1937 production figures for Silver King, whose mine was shut down the greater part of 1938 as well as during the early months of 1939, the increase is equivalent to 10 cents a share. Other mining companies, including almost all domestic gold and non-ferrous metal producers, stand to benefit in varying degree according to the proportion of their silver output to production of other metals but in most cases earnings increments will be minor. For example, Phelps Dodge's 1938 net before depletion of $1.71 per share would have been increased only about 6 cents had the higher silver price been in effect last year. As to the position of such major foreign producers as U. S. Smelting, the situation is not so clearly defined. For while the Government's authority to continue silver buying abroad has been extended, the Treasury's offering price has been lowered by successive steps to about 18% under that prevailing a few weeks ago and its buying policy has been placed on a 24-hour basis.

American Home Products

Recent Price: 51 Dividend Rate: $2.40

This is our regular fortnightly investment suggestion to those interested primarily in income, safety of principal and sound investment standing. Each number of the Magazine contains one such selected issue.

American Home Products is one of the leading domestic producers of drugs and drug store accessories, including proprietary lines, medicinal and toilet compounds, pharmaceuticals, rubber products, insecticides, furniture polish and related lines. The drug trade is the company's principal market, but it also sells to grocery, department and other stores.

Per share earnings, figured on the number of shares outstanding at the end of each year, have fluctuated narrowly over recent years, a low of $2.57 in 1935 comparing with a high of $3.88 in 1937. Last year's net was equal to $3.75 per share, and for the first quarter of 1939 earnings of $1.33 were reported against $1.00 a year earlier.

Regular 20 cent monthly dividends have been paid since October, 1933, and extras of 10 cents and 20 cents were distributed in 1936 and 1937, respectively.

The company's financial position as of the close of 1938 was characteristically strong and working capital appeared ample in relation to sales volume. Capitalization consists solely of 805,357 shares of $1 par common stock, there being no funded debt (excluding $410,775 of subsidiary purchase money obligations) or preferred stock outstanding.

Mail Orders Continue Gains

Sears, Roebuck and Montgomery Ward have recently been selling only a few points above their market levels of a year ago, a striking example of how foreign and domestic uncertainties can offset, marketwise, the impetus that might under other circumstances be expected from excellent operating gains. For sales of the two major mail orders thus far in their fiscal year have been running about 23% and 15%, respectively, ahead of year earlier levels and first half earnings in each case are expected to at least double those of the like period of last year. As a matter of fact, Sears should report an increase well in excess of 100%—assuming, as seems likely, that inventory adjustments will be minor—and earnings for the half may well approximate the record figure of $2.76 per share earned in the first twenty-four weeks of the fiscal year ended January 31, 1938. Although it has shown a lower percentage sales gain, Ward will probably report a proportionate increase in net per share approaching

that of Sears; at least $1.70 against 85 cents last year is expected.

Second Quarter Earnings

Though the foreign situation is bearing the brunt of the blame, the hesitant and vacillating behavior of the market may well be due in no little degree to the mixed character of second quarter earnings reports now coming to hand. Not that comparisons with a year ago are not generally favorable—most of them are for business then was at its lowest depression ebb—but stacked against first period results not a few reports make less pleasant reading despite the normal seasonal advantage which generally accrues to the second three months of the year but was conspicuous by its absence this time. Also, as regards year to year comparisons, a favorable showing will be more difficult from here on as it was just twelve months ago that business staged a spectacular rally. Of the principal groups, merchandising and other consumers goods concerns are, not unexpectedly, turning in the most heartening June quarter results, while heavy industry, for the most part, still wallows in depression. There were, of course, some exceptions. Railroad earnings, though still far below anything approaching adequate levels, took a turn for the better and some of the building supply companies were beginning to feel the effects of the smart rise in construction activity that has been going forward.

Two Favorable Omens

Two of the most basic indicators of underlying industrial conditions are expected to be pointing upward this summer according to management officials best qualified to judge. Electric power output has recovered sharply from the dip that occurred at the time of the coal strike, and weekly consumption figures should shortly pass the 2,300,000,000 kwh. mark thus setting a new 1939 high. In fact, not a few industry officials are predicting a new all time record before the summer is over which would mean a figure surpassing the 2,362,947,000 kwh. record reached in the week of December 24, 1938. Rail officials are little less optimistic on the outlook for carloadings. More than seasonal gains in traffic have been the rule in recent weeks are expected to continue. Nigger in the wood pile, of course, is the foreign situation for another serious war scare abroad would almost certainly slow business tempo.

All Ears

The air transport industry probably was in the black for the first half of 1939, thanks mainly to record breaking traffic in June. Of the three principal transcontinental lines, however, only American is understood to have shown a profit for the period. * * * With Bata Shoe Co., formerly of Czechoslovakia, now preparing to manufacture in this country, domestic shoe producers stand to gain little from the countervailing duties levied against German imports a few months back. * * * Import-Export Bank credits to Portugal are expected to result in fair sized locomotive orders for both Baldwin and American. Inquiry was made by Portuguese Railways Co. for 15 locomotives some months ago.

Developments in Companies Recently Discussed

First half net income of Commonwealth Edison is estimated at about $12,000,000 or approximately $1.30 to $1.35 per common share as compared with $1.22 on a smaller number of shares earned in the same period of 1938. While rates for small commercial and residential customers were reduced this spring, an approximate 10 per cent increase in overall output brought about the improved showing. Further heavy conversions of the company's debentures are expected in coming weeks.

Second quarter earnings in the neighborhood of $1 per share are estimated for United Carbon as compared with 94 cents in the like 1938 period and $1.15 in the initial three months of this year. Domestic carbon black prices remain depressed and no increase in quotations is contemplated before 1940 at the earliest. Sales volume, however, has been improving. Company's financial position has been improved in recent months by further liquidation of inventories.

Incoming orders of General Electric are in sharp contrast with the situation of a year ago when new business booked by the company was in a downward trend which persisted until the final quarter of the year. Bookings during the second quarter of 1939, though slightly below those of the preceding three months, were almost 31 per cent above the total for the June quarter of 1938. Total bookings for the half amounted to $169,071,646 against $128,223,823 a year ago.

Net income of Endicott Johnson for the 53 weeks ended June 3, 1939, was equivalent, after preferred dividends, to $2.19 per common share against $2.06 a share for the preceding twelve months. The improvement was more than accounted for, however, by lower depreciation charges as a result of a change in the basis of depreciation.

A gain in residential building of approximately 20 per cent last month was reflected in sales of Certain-teed Products which are understood to be running 20 to 30 per cent ahead of a year ago. Second quarter operating results probably compared favorably with those of the same quarter of 1938 when net income was just short of preferred dividend requirements.

Briggs Mfg's. June quarter earnings were probably on a par with those of the March period or in the neighborhood of 48 cents a share which would represent a gain of 50 per cent over a year ago despite the loss of three weeks' production due to labor trouble. Operations in the quarter just getting under way will benefit from earlier intoduction of 1940 car models.

Though second quarter net of National Cash Register, estimated at about 43 cents a share, was somewhat below the 53 cents reported for the like period of 1938, it was an improvement over the 30 cents earned in the initial quarter of 1939 and new orders are now running far enough ahead of a year ago to indicate favorable year-to-year comparisons for the current and fourth quarters.

Earnings of Union Bag & Paper last quarter are understood to have been slightly under those of the March period when 12 cents a share was reported and considerably below the 20 cents earned in the second three months of 1938. Withholding of jobbers' orders combined with price weakness growing out of the sag in general business activity in recent months were responsible.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

McCrory Stores Corp.

I am holding 100 shares of McCrory Stores common bought at 20, in anticipation of market appreciation. I understand sales for 1939 are estimated at 5% over last year. With this margin of increase, do you think market enhancement of the common shares to my buying point is likely?—N. F., Milwaukee, Wis.

The McCrory Stores Corp., the sixth largest chain of variety stores, operates more than 200 units, located in middle Atlantic, Southeastern and mid-Western States. A large number of the stores are located in sections dependent upon the fortunes of the steel industry, but the demand for 5 cent and 10 cent items is relatively stable. Pared down in reorganization three years ago, capitalization consists of $2,922,000 of 5% debentures due in 1951, 50,000 shares of $6 convertible preferred stock and 990,253 common shares. The company's financial position is entirely satisfactory, with cash items alone far in excess of total current obligations. The report of the company for the full year 1938 showed a net profit of $1,765,063 or $1.48 per common share, as compared with $2,168,620 or $1.89 on the common stock in 1937. In the first five months of the current year, sales showed an increase of 6.1% over a year earlier, while the month of May alone showed an increase of 13.4% over May, 1938. An increase of about 5% in sales for the current calendar year is predicted, and profit margins should be wider. We look upon the stock as an attractive speculation, not over-priced on an earnings basis, and recommend continued retention.

Interlake Iron Corp.

Is the demand for pig iron sufficient to allow Interlake Iron operating at a profitable rate or will the current curtailment in the heavy industries seriously retard price appreciation of this stock? I have been holding 50 shares bought at 15 and am anxious to know whether to hold or sell.—C. R., Houston, Tex.

Reflecting the subnormal activity in the steel industry during the greater part of 1938, operations of Interlake Iron Corp. for that year resulted in a loss of $1,021,655 against $2,406,553 profit the year before. During the first quarter of the current year a loss of $350,678, compared with $28,266 profit in the March quarter of 1938. Due to seasonal influences on coke and gas sales for home heating as well as the decline in the demand for iron, results during the second quarter were probably no better than for the first quarter. Until there is a considerable pick-up in the steel business generally the subject organization probably will record no worthwhile change for the better in its earnings picture. However, there is the strong possibility of improvement later in the year and since the stock is well deflated in the market, it should prove suitable for retention on that basis. Balance sheet position as revealed at the close of last year was satisfactory with current assets largely in excess of current liabilities and the company is therefore in a position to satisfactorily weather a further period of unsatisfactory operation, if necessary. Moreover, the 2,000,000 shares of capital stock are preceded by only $8,900,000 in funded debt, an amount conservative in relation to indicated assets and average earnings power over a period of years.

Atlas Powder Co.

Will our colossal armament program benefit the common stock of Atlas Powder? Do the sales of this company consist mostly of dynamite or do its other products figure to a large extent in its total sales volume? Is it in strong enough position to meet keen competition? I bought 100 shares at 75 and am anxious about my commitment considering the paper loss shown.—T. V., Miami, Fla.

The armament program is of only indirect significance to Atlas Powder Co. because of the fact that this company specializes in the manufacture of dynamite, the demand for which varies directly with activity in mining, construction, railroad and other industries. Approximately 70% of the company's business is normally derived from manufacture and sale of explosives, the balance being accounted for by numerous chemical products developed during recent years. Artificial leather, lacquer, enamels and various other cellulose products enjoy a relatively broad demand, the applications for

which have registered steady gains over recent years and have tended to offset the generally low level of activity in the mining and construction industries. Earnings record of the company has been exceptionally good and even during the worst year of the depression—1932—a small profit was recorded. During the March quarter of the current year, a profit equal, after preferred dividend requirements, to 54 cents a share on the common stock compares with 52 cents a share for the March quarter of 1938. Business of the company over more recent weeks is understood to have compared most favorably with the previous year and to have run ahead of the level of the first quarter. Thus, earnings for the full year should exceed the $2.69 a common share recorded for 1938, and given an improvement in conditions obtaining in the railroad, construction and other so-called "heavy" industries, marked earnings gains should be shown. Because of a strong financial condition, liberal dividend payments are indicated. No regular rate is being paid, but total distributions in 1938 amounted to $2.25 a share and thus far this year two payments of 50 cents a share have been made. In our opinion, the stock is one holding excellent possibilities of market appreciation during a period of industrial revival, while the indicated dividend return on the stock in the meantime should continue to attract investor support around current levels.

American Home Products Corp.

Is it anticipated that the recent acquisition of the Clapp Baby Foods will add substantially to the earnings of the American Home Products Corp.? What progress is this company making in diversifying its products to strengthen its competitive position? What is your opinion of 150 shares bought at 47? —K. R., Bangor, Me.

Since formation in 1936 the American Home Products Corp. has made numerous important additions to its line with the result that output is well diversified and dependence upon any one product has been minimized. A wide variety of proprietary drugs, toilet compounds, rubber products, furniture polish and cosmetics is now handled, distribution being attained mainly through the drug trade, although grocery and department stores also are important outlets. The recent acquisition to which you refer of the Harold H. Clapp Co., manufacturers of baby foods, will further diversify the company's line and should prove a profitable addition. This purchase was financed through a $3,600,000 bank loan on very favorable terms which matures serially through 1944. The last year-end balance sheet showed a satisfactory financial condition and this, coupled with the favorable trend of earnings in evidence for some time past should facilitate liquidation of the loan without any interruption in the liberal dividend policy which has been maintained for some years past. Currently dividends are being paid at a $2.40 annual rate which is conservative in relation to the $3.75 a share earned in 1938. In the first quarter of the current year, earnings equalled $1.33 a share, against $1.00 a share for the like 1938 interval. Capitalization consists solely of 804,851 shares of common stock, there being no bonds or preferred stocks outstanding. Currently quoted around 49½, the stock yields approximately 5% and with indications pointing to improved earnings this year, the stock is believed to offer good possibilities of moderate price appreciation.

Cutler-Hammer, Inc.

Although building activity is continuing at a high rate, do you think Cutler-Hammer's operations will again go into the red because of the lull in the diversified heavy industries? I am holding 200 shares of this stock bought at 26 and am wondering if a switch is advisable at this time.—V. T., Cincinnati, O.

Manufacturing a well diversified line of electric apparatus such as speed regulators, switches, switch boxes, etc., earnings of Cutler-Hammer, Inc., tend to follow closely the rate of industrial activity generally. Thus, net sales last year declined to $7,797,662 from $12,665,445 the year before with the result that a loss of 46 cents a share was recorded on the capital stock, against $1.93 a share profit in 1937. Thus far in the current year the company has experienced an improvement in its business and in the first quarter earnings equalled 9 cents a share, contrasting with a loss of 5 cents a share in the March quarter of 1938. With construction continuing to record fair progress and with most of its principal customers enjoying some improvement over operations over a year ago, indications point to further progress by the subject organization over coming months. Financial condition continues strong and in the past liberal dividend payments have been made when earnings warranted. Thus, at current depressed prices, the stock would seem to hold interesting market possibilities during a recovery phase of the business cycle and while such a development on a broad scale may not be experienced for some months ahead, we nevertheless feel that retention here is the logical policy to follow.

Worthington Pump & Machinery Corp.

Are orders being received by the Worthington Pump Corp. large enough to build up a substantial backlog? Will this company's earnings be stimulated greatly by armament programs and anticipated expansion in the utility field? Are preferred dividends being earned at present and what is the outlook for the common? I am holding 300 shares bought at 30.—J. R., Akron, O.

Manufacturing a broad line of industrial machinery, Worthington Pump & Machinery Corp.'s. earnings are naturally strongly influenced by the rate of activity in the heavy industries generally. Last year's operations resulted in a loss of $2.36 a share on the common stock, after allowing for regular preferred requirements, against $3.67 a share profit the year before and while bookings have increased recently and the company should benefit from increased government appropriations, prospects are still confused by the continued low level of capital expenditures by private industry. Until that shows sustained recovery, the common stock of

(Please turn to page 364)

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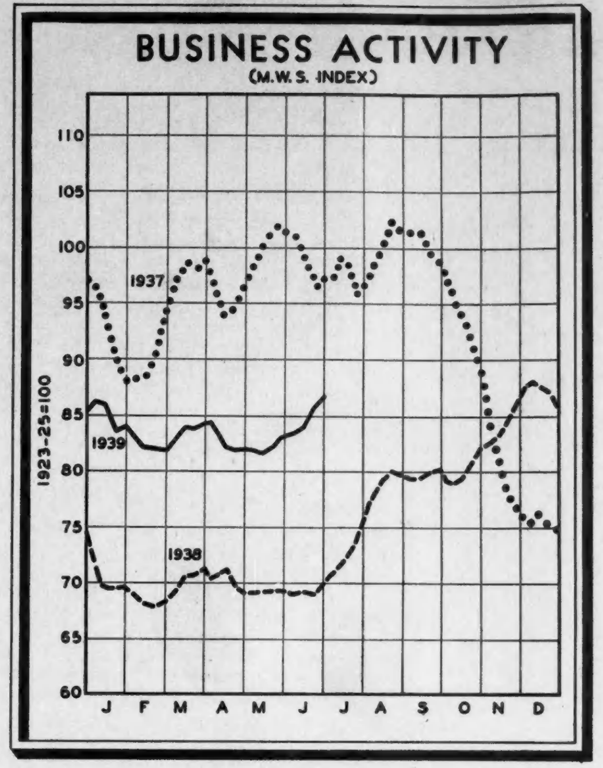


CONCLUSIONS

INDUSTRY—Factory orders widen increase over last year.

TRADE—Expanding wholesale trade reflects greater confidence among retailers.

COMMODITIES—General price levels hold firm.

MONEY AND CREDIT—Commercial loans show sharp contra-seasonal rise.

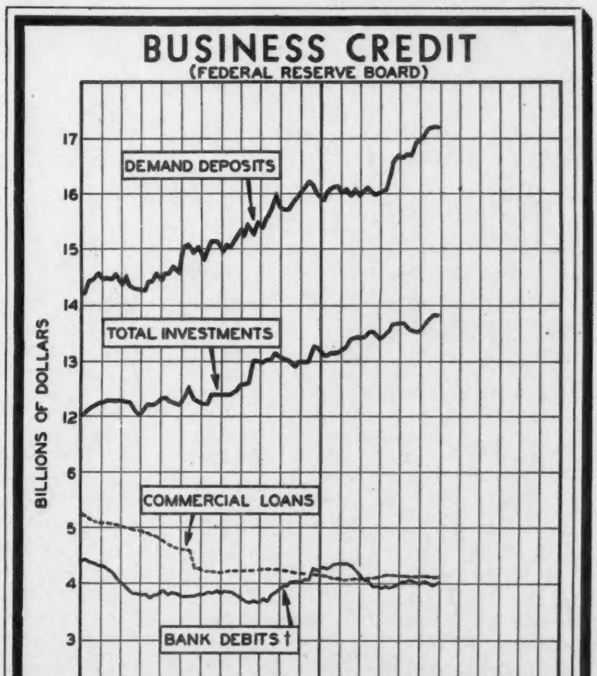
The Business Analyst

June has closed with a sharp spurt in general **Business Activity** throughout the nation, making the seventh consecutive week of improvement since settlement of the soft coal strike, and bringing the average physical volume of production and trade up to a new high for the current year, though still about 2% below last year's peak of 88.0 reached during the week ended December 10th. Per capita Business Activity for the month of June is estimated at 84.9% of the 1923-5 average, compared with 82.5 in May and 69.2 for June, 1938. Average for the second quarter was 83.3, against 83.6 in the first quarter and 69.7 for last year's second quarter. First half of the current year averaged 83.4, compared with 69.6 a year ago. Increases—this year over last year—amounted to 22.7% in June, against 19.5% for the second quarter and 19.8% for the half year. With **Unit Labor Costs** somewhat higher during the second quarter, corporate earnings, by and large, probably made a slightly less satisfactory showing than for the first quarter, both actually and compared with last year.

* * *

Barring an improbable outbreak of actual warfare in Europe, and possibly serious labor trouble in the Motor Industry, the present

(Please turn to next page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	May	92	92	76
INDEX OF PRODUCTION AND TRADE (b)	May	81	81	72
Production	May	77	77	67
Durable Goods	May	60	63	43
Non-durable Goods	May	87	87	81
Primary Distribution	May	75	74	70
Distribution to Consumers	May	94	94	83
Miscellaneous Services	May	80	80	78
WHOLESALE PRICES (h)	June	75.5(pl)	76.5	78.3
INVENTORIES (n. i. c. b.)				
Raw Materials	Apr.	97.6(pl)	98.3	116.7
Semi-Finished Goods	Apr.	113.4(pl)	113.3	121.9
Finished Goods	Apr.	111.0(pl)	110.0	114.9
COST OF LIVING				
All items	May	84.8	85.0	86.5
Food	May	78.1	78.2	80.8
Housing	May	86.2	86.2	87.0
Clothing	May	72.1	72.2	74.5
Fuel and Light	May	84.0	85.2	83.7
Sundries	May	96.6	96.7	97.5
Purchasing value of dollar	May	117.9	117.6	115.6
NATIONAL INCOME (cm)†	May	$5,178	$5,438	$5,020
CASH FARM INCOME†				
Farm Marketing	May	$508	$463	$510
Including Gov't Payments	May	589	553	554
Total, First 5 Months	1939	2,829	......	2,782
Prices Received by Farmers (ee)	May	90	89	92
Prices Paid by Farmers (ee)	May	120	120	125
Ratio: Prices Received to Prices Paid (ee)	May	75	74	74
FACTORY EMPLOYMENT (f)				
Durable Goods	May	83.2	84.1	75.0
Non-durable goods	May	96.7	98.0	91.5
FACTORY PAYROLLS (f) (not adjusted)	May	84.4	84.9	72.9
RETAIL TRADE				
Department Store Sales (f)	June	87	85	82
Chain Store Sales (g)	May	110.0	110.0	103.3
Variety Store Sales (g)	May	115.0	114.3	106.1
Rural Retail Sales (i)	May	128.2	125.2	110.1
Retail Prices (s) as of	June 1	89.1	89.1	89.5
FOREIGN TRADE				
Merchandise Exports†	May	$249.3	$230.9	$257.3
Cumulative year's total† to	May 31	1,179.4	......	1,378.1
Merchandise Imports†	May	202.5	186.2	148.2
Cumulative year's total† to	May	915.5	......	815.1
RAILROAD EARNINGS				
Total Operating Revenues*	1st 5 mos.	$1,482,510	......	$1,353,986
Total Operating Expenditures*	1st 5 mos.	1,158,959	......	1,113,462
Taxes*	1st 5 mos.	142,901	......	140,655
Net Rwy. Operating Income*	1st 5 mos.	126,167	......	46,026
Operating Ratio %	1st 5 mos.	78.18	......	82.24
Rate of Return %	1st 5 mos.	1.50	......	0.55
BUILDING Contract Awards (k)†	May	$308.5	$330.0	$283.2
F. H. A. Mortgages				
Selected for Appraisal†	May	109.4	105.7	96.1
Accepted for Insurance†	May	73.7	64.9	61.8
Premium Paying†	May	49.4	46.3	30.0
Building Permits (c)				
214 Cities†	May	95.6	76.6	63.6
New York City†	May	15.9	18.7	14.0
Total, U. S.†	May	111.5	95.3	77.6
Engineering Contracts (En)†	June	$262.4	$253.0	$223.1

PRESENT POSITION AND OUTLOOK

(Continued from page 353)

outlook is for further gradual recovery during the third quarter. The new tax law embodies changes which are decidedly acceptable to business. Not the least of these is legislation of the "last-in-first-out" method of computing profits for income tax purposes, an improvement long advocated by accountants as a means of ironing out the violent ups and downs in reported earnings occasioned by wide fluctuations in inventory valuations under former regulations.

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During the month of May, **farm income,** including benefit payments, was 3% above last year, compared with a 2% gain for five months; **national income paid out** was up 3%, the same increase as for five months; **factory employment** rose 8%, including an increase of 11% in **durable goods** and a gain of 6% in **non-durable goods; factory payrolls** were up 15%; total **employment** increased 347,000, to 44,645,000; while unemployment declined 294,000 to an estimated 9,881,000; factory new orders were 47% ahead of May, 1938; while shipments rose 23%. For April, new orders were up only 20%, and shipments 14%. Dividends declared in June were 1.5% more liberal than a year ago, against a six-months' decrease of 1.8%.

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Owing to a rather sharp rise in trade around the present time last year, **department store sales** recently have reported a narrowing margin of increase over a year earlier, which amounted to only 3% for the week ended June 24, against a four weeks' gain of 7%. Store inventories on June 1st were 5% lower than a year earlier. Profits of the leading mail order houses for the half year are believed to have doubled earnings reported for first six months of 1938. For the month of May, **wholesale trade** was 12% above last year, and manufacturers' sales jumped 19%.

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With **carloadings** running currently about 15% above last year, Class I **railroads** in May converted an 11% rise in gross operating revenues into a 45% increase in net operating income. For five months, n. o. i. totaled $123,000,000, against $46,000,000 for the like period last year.

• • •

Building permits granted in May were 68% above last year, compared with a five months' gain of only 28%. This includes a 93% increase in residential permits for May, against a five months' rise of only 47%. These permit figures point to the inference that declines in the margin of increase over last year in actual **contracts** and mortgage applications of recent weeks may be merely temporary. **Construction costs** are steady and about on a level with last year.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	June	3,130	2,918	1,633
Pig Iron Production in tons★	June	2,119	1,718	1,061
Shipments, U. S. Steel in tons★	May	723	701	465
AUTOMOBILES				
Production				
Factory Sales	May	297,508	337,372	192,059
Total 1st 5 Months	1939	1,643,813	......	1,028,673
Retail Sales				
Passenger Cars, U. S. (p)	May	282,000(pl)	269,000	178,000
Trucks, U. S. (p)	May	48,000(pl)	46,000	32,956
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	May	335.9	298.2	275.7
Shipments, U. S. & Canada★ (tons)	May	359.1	291.7	259.5
Mill Stocks, U. S. & Canada★ (tons)	May 31	209.4	232.6	218.8
LIQUOR (Whisky)				
Production, Gals.★	May	7,971.0	8,442.6	7,652.7
Withdrawn, Gals.★	May	4,728.2	5,736.7	5,111.1
Stocks, Gals.★ as of	May 31	479,271.2	......	372,162.3
GENERAL				
Machine Tool Orders (n)	May	314.1	222.4	95.3
Railway Equipment Orders (Ry)				
Locomotive	June	8	51	31
Freight Cars	June	1,324	2,051	1,090
Passenger Cars	June	14	None	None
Cigarette Production†	May	15,445	12,219	14,424
Bituminous Coal Production★ (tons)	June	28,506(pl)	17,880	22,507
Boot and Shoe Production Prs.★	May	32,110	32,578	30,473
Portland Cement Shipments★	May	12,688	9,654	9,752
Commercial Failures (c)	June	952	1,122	1,073

PRESENT POSITION AND OUTLOOK

June registrations of new **passenger cars** were about 54% above last year. Field stocks of new motor cars on June 1st amounted to only 1.33 month's supply, at current rate of sales, against 1.55 on May 1st and 1.69 on June 1st, 1938. Production from now on will taper off rapidly until mid-September to clear the lines for assemblage of 1940 models.

* * *

Though **whisky** withdrawals during May were 4.6% below last year, production increased 4.8%, leaving inventories at the end of the month about 1.5% higher than a year earlier. **Lumber** orders booked during the week ended June 24 were 8% above shipments and 23% larger than a year ago. Along with construction volume, however, business is still far below boom levels of the late '20s.

* * *

Reflecting inroads of the Appalachian mines strike, **bituminous coal** stocks on June 1st were 36% lower than on April 1st, and 25% beneath the level reported for June 1st, 1938. Replenishment of depleted inventories should result in a greater than normal rate of production during the third quarter and so help the earnings of coal carrying railroads.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. S. W. INDEX OF BUSINESS ACTIVITY 1923-25—100	July 1	86.9(pl)	85.9	62.3
ELECTRIC POWER OUTPUT				
K.W.H.†	July 1	2,300	2,285	2,015
TRANSPORTATION				
Carloadings, total	July 1	665,528	642,987	588,880
Grain	July 1	51,484	46,992	50,953
Coal	July 1	108,634	100,949	93,508
Forest Products	July 1	32,988	30,552	27,795
Manufacturing & Miscellaneous	July 1	258,340	255,091	231,268
L. C. L. Mdse	July 1	153,461	151,850	146,941
STEEL PRICES				
Pig Iron $ per ton (m)	July 3	20.61	20.61	19.61
Scrap $ per ton (m)	July 3	14.71	14.71	12.58
Finished c per lb. (m)	July 3	2,236	2,236	2,300
STEEL OPERATIONS				
% of Capacity week ended (m)	July 8	40.0	54.0	28.0
CAPITAL GOODS ACTIVITY (m) week ended	July 1	68.5	69.9	45.9
PETROLEUM				
Average Daily Production bbls.★	July 1	3,463	3,453	3,059
Crude Runs to Stills Avge. bbls.★	July 1	3,480	3,430	3,129
Total Gasoline Stocks bbls.★	July 1	81,102	81,733	80,408
Fuel Oil Stocks, bbls.★	July 1	108,905	107,475	113,241
Crude—Mid-Cont. $ per bbl	July 10	1.02	1.02	1.22
Crude—Pennsylvania $ per bbl	July 10	1.48	1.48	1.40
Gasoline—Refinery $ per gal	July 10	.06⅛	.06⅛	.06⅞

PRESENT POSITION AND OUTLOOK

With **electric power output** running around 14% ahead of a year ago, and industrial activity in a rising trend, the power and light industry should earn more during the third quarter than reported for either the first or second quarters. The wave of utility baiting has about run its course and, once reshufflings under the Utility Act are completed, utility securities should gradually regain favor with investors.

* * *

Extensive summer vacations during the week containing July 4th caused an unusually sharp dip in the **steel operating rate,** followed by an almost equally sharp recovery. Owing to expanding industrial activity, the rate this summer will be maintained at a much higher level than last year. Profits, however, are being held down by prices averaging nearly 8% lower than a year ago, in consequence of over-capacity—particularly as to automobile steel. It is significant that one of the smaller independent mills, equipped with the most modern continuous process machinery, has found it necessary to reduce wages.

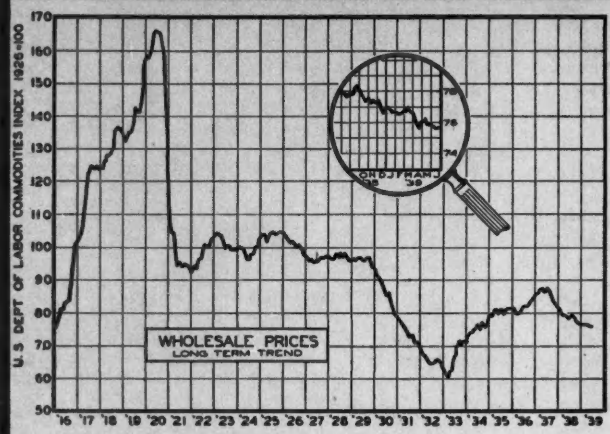
* * *

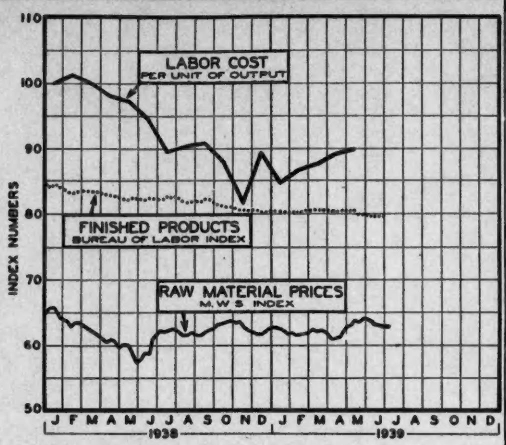
Longer range outlook for the **oil industry** has been brightened by extension for three years of the Connally "Hot Oil" Act.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec. 1930—100. (En)—Engineering News Record. (Ry)—Railway Age. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100.

Trend of Commodities

Aside from several brief flurries in agricultural prices, commodity prices as whole continue to mark time. The imminence of several Government crop reports caused traders to retire to the side lines, while among industrial purchasers the feeling remained unchanged that neither a sharp or prolonged rise in commodity prices are to be feared. Although the familiar argument that inventories of manufactured and semi-finished goods have been permitted to decline to a point where any pickup in business would require large scale replacement orders still holds good, buyers remain convinced that they will be able to meet their needs without bringing about a sellers' market. Their reasoning is doubtless based on the prospect of gradual rather than accelerating business improvement. Such being the case, and minus the threat of disruptions through labor difficulties, the need for building up inventories is not present.





Changes in Major Commodity Price Groups for the fortnight Ended July 2, 1939

Farm Products	62.9	up 0.9	Metals	93.3	down 0.1
Foods	67.4	up 0.3	Building Material	89.7	up 0.2
Hides and Leather	93.1	up 0.1	Chemical	74.9	down 0.6
Textiles	66.9	up 0.1	Housefurnishings	87.0	up 0.1
Fuel and Lighting	73.7	down 0.4	Miscellaneous	73.6	no change

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
July	July 8	9.53	9.35	9.12
October	July 8	8.82	8.65	9.08
Spot	July 8	9.87	9.75	9.17
(In bales 000's)				
Visible Supply, World	July 7	6,922	7,029	8,106
Takings, World, wk. end	July 7	283	253	219
Total Takings, season Aug. 1 to	July 7	(w)	......	(w)
Consumption, U. S.	May	605	547	426
Exports, wk. end	July 7	27	26	44
Total Exports, season Aug. 1 to	July 7	3,258	3,230	5,553
Government Crop Est. (final)	1938	11,943(ac)	......	18,946(ac)
Active Spindles (000's)	May	21,975	22,109	21,342
WHEAT				
Price cents per bu. Chi. closing				
July	July 8	66½	69⅞	71⅝
Sept.	July 8	67½	71⅛	72⅞
Exports bu. (000's) since July 1 to	July 1	139,678	137,402	131,443
Exports bu. (000's) wk. end	July 1	2,276	1,655	1,850
Visible Supply bu. (000's) as of	July 1	77,513	65,498	27,607
Gov't Crop Est. bu. (winter) (000's)	July 1	716,655	......	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
July	July 8	46¼	46⅞	58
Sept.	July 8	47¾	48⅞	59⅜
Exports bu. (000's) since July 1 to	July 1	68,475	68,458	91,942
Visible Supply bu. (000's) as of	July 1	29,521	31,575	23,799
Gov't Crop Est. bu. (000's) (final)	July 1	2,570,795	......	2,408,958(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Price changes during the past week were, for the most part, circumscribed, with traders withholding commitments in anticipation of the Government acreage report and awaiting definite news as to the manner in which the export subsidy for cotton will be made effective. The trade would welcome a fixed subsidy rate rather than a flexible one and it is believed that once the details are known a fair amount of business with foreign spinners would materialize. Government estimates that the planted acreage for the 1939-40 crop at 24,943,000, the smallest since 1899. The first crop report will be due Aug. 8.

* * *

Wheat. Prices have reacted to further reports of good growing and harvesting conditions. Improved weather conditions have led private estimators to revise figures on spring wheat upward. Prospects are, however, that the spring crop will fall below 200,000,000 bushels as compared with 244,000,000 bushels a year ago. The total crop will be substantially under last year's, although probably less than expected several months ago.

* * *

Corn. Prices were helped temporarily by the announcement that crop loans expiring August 1 would be granted a twelve-month extension. This relieved anxiety over the threat of 257,000,000 bushels of stored corn under loan being released.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	July 8	10.25	10.00	9.75
Export c. i. f.	July 8	10.35	10.10-10.20	9.60-9.70
Refined Prod., Domestic (tons)	May	68,536	58,368	47,300
Refined Del., Domestic (tons)	May	45,961	42,484	28,044
Refined Stocks, Domestic (tons)	May 31	342,419	332,513	369,809
Refined Prod., World (tons)	May	170,472	166,308	149,344
Refined Del., World (tons)	May	172,296	153,678	136,567
Refined Stocks, World (tons)	May 31	520,898	522,722	554,356
TIN				
Price cents per lb., N. Y.	July 8	48.60	49.00	42.60
Tin Plate, price $ per box	July 10	5.00	5.00	5.35
World Visible Supply† as of	June 30	30,055	30,866	29,061
U. S. Deliveries†	June	4,925	5,905	4,205
U. S. Visible Supply† as of	June 30	4,388	3,387	4,247
LEAD				
Price cents per lb., N. Y.	July 8	4.85	4.85	4.90
U. S. Production (tons)	May	30,866	33,873	27,909
U. S. Shipments (tons)	May	5,905	5,980	4,275
Stocks (tons) U. S., as of	May 31	3,387	3,385	3,679
ZINC				
Price cents per lb., St. Louis	July 8	4.50	4.50	4.75
U. S. Production (tons)	June	39,450	42,302	30,799
U. S. Shipments (tons)	June	37,284	39,607	29,248
Stocks (tons) U. S., as of	June 30	135,241	133,075	149,671
SILK				
Price $ per lb. Japan xx crack	July 8	2.56½	2.51	1.81
Mill Dels. U. S. (bales), season to	June 1	388,225	362,075	348,988
Visible Stocks N. Y. (bales) as of	June 1	24,201	20,738	34,800
RAYON (Yarn)				
Price cents per lb	July 8	51.0	51.0	49.0
Consumption	June	32.9	25.9	18.1
Stocks as of (a)	June 30	32.8	41.5	67.0
WOOL				
Price cents per lb. tops, N. Y.	July 8	86.0	84.0	80.0
HIDES				
Price cents per lb. No. 1 Packer	July 8	11.0	11.0	11.0
Visible Stocks (000's) (b) as of	May 31	12,903	12,813	13,804
No. of Mos. Supply as of	May 31	6.5	6.2	8.0
RUBBER				
Price cents per lb	July 8	16.36	16.43	15.10
Imports, U. S.†	May	47,535	29,601	27,410
Consumption, U. S.†	May	44,377	44,166	30,753
Stocks U. S. as of	May 31	193,602	190,896	300,907
Tire Production (000's)	May	4,418	4,211	2,663
Tire Shipments (000's)	May	4,753	4,356	3,291
Tire Inventory (000's) as of	May 31	9,919	9,998	9,521
COCOA				
Price cents per lb. Sept	July 7	4.12	4.17	5.16
Arrivals (thousand bags)	June	198	416	129
Warehouse Stocks (thousand lbs.)	July 7	1,414	1,416	676
COFFEE				
Price cents per lb. (c)	July 8	7.25	7.25	7.75
Imports, season to	June 30	13,878	12,624	12,365
U. S. Visible Supply (bags 000's)	July 1	1,408	1,451	1,418
SUGAR				
Price cents per lb.				
Duty free delivered	July 8	2.93	2.89	2.72
Refined (Immediate Shipment)	July 8	4.50	4.50	4.50
U. S. Deliveries (000's)*	1st 5 Mos.	2,380	......	2,250
U. S. Stocks (000's)* as of	May 31	1,086	......	1,108

PRESENT POSITION AND OUTLOOK

Copper. Inspired by heavy copper sales both here and abroad accompanied by strength in foreign prices, domestic prices were advanced ¼ cent. Sales on July 5 in the domestic market totaled 19,078 tons the largest for any single day since July 1, 1938. Total sales in the first five days of July amounted to 26,358 tons. Sales abroad were also heavy.

* * *

Tin. The world's visible supply of tin declined 762 tons in June and is now at the lowest point since the end of January last. Apparently, no tin has as yet been sold by the Buffer Pool, although the price has been close to the £230 figure at which the pool has agreed to sell moderate tonnages. Domestic interest dull and prices firm.

* * *

Lead. Although buying interest is much less active than it was several weeks ago, prices are firm both here and in London. Further strength in the London market might be followed by another advance in domestic prices. Buyers are well covered through July and part of August.

* * *

Zinc. Shipments in the last week of June totaled 5,548 tons and were the largest since the final week of December, 1937. Stocks at the end of June were 2,166 tons higher, despite a drop of 2,800 tons in production. Shipments declined 2,300 tons.

* * *

Rayon. Demand increased sharply in June and substantial business has been booked for July. Third quarter prospects good.

* * *

Silk. While it is possible that the new cocoon crop may be somewhat larger than 1938, substantial relief in the tight supply situation is not in sight. Sustained high prices, however, may result in lowering domestic silk consumption as much as 25 per cent.

* * *

Hides. May statistics revealed a small increase in hide inventories and a moderate decline in leather consumption. Consumption of leather in May was only 88,000 hides smaller than in April, while production of 1,736,000 hides was exactly the same as consumption. Hide inventories were divided about evenly between raw hide stocks and finished stocks.

* * *

Rubber. Tire shipments in May rose more than 9 per cent from the April level, and were some 44 per cent higher than in May 1938. Production also rose in May, while inventories at the end of the month were slightly lower. Shipments for replacements in May ran 18 per cent ahead of April, and were the highest since August 1938.

* * *

Coffee. For the crop year ended June 30, 1938, the United States accounted for 51.69 per cent of the world consumption of coffee, consuming 907,107 bags more than the rest of the world combined. Domestic deliveries set a new high, up 10 per cent over the previous crop year.

* * *

Sugar. Conviction is growing that international quotas for the period beginning Sept. 1, will be strictly limited to demand. This prospect is reflected in the highest world prices in more than eight years.

(a)—Million Pounds. (ac)—Actual. (pl)—Preliminary. (c)—Santos No. 4 N. Y. †—Long tons. *—Short tons. w—Withheld pending season-end adjustments.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	July 8	1¼%	1¼%	1¼%
Prime Commercial Paper	July 8	½%	½-1%	¾%
Call Money	July 8	1%	1%	1%
Re-discount Rate, N. Y.	July 8	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	June 24	2,452	2,634	2,131
Cumulative year's total to	June 24	59,426	......	56,212
Bank Clearings, N. Y.	June 24	3,127	3,408	2,912
Cumulative year's total to	June 24	78,881	......	91,782
F. R. Member Banks				
Loans and Investments	June 28	21,951	21,923	20,561
Commercial, Agr., Ind. Loans	June 28	3,833	3,823	3,936
Brokers Loans	June 28	648	661	652
Invest. in U. S. Gov'ts	June 28	8,423	8,404	7,770
Invest. in Gov't. Gtd. Securities	June 28	2,148	2,127	1,488
Other Securities	June 28	3,291	3,320	2,982
Demand Deposits	June 28	17,220	17,238	15,036
Time Deposits	June 28	5,237	5,238	5,239
New York City Member Banks				
Total Loans and Invest.	July 5	8,136	8,133	7,494
Comm'l, Ind. and Agr. Loans	July 5	1,405	1,384	1,463
Brokers Loans	July 5	495	496	537
Invest. U. S. Gov'ts	July 5	3,196	3,172	2,844
Invest. in Gov't Gtd. Securities	July 5	1,094	1,087	684
Other Securities	July 5	1,075	1,131	998
Demand Deposits	July 5	7,524	7,578	6,115
Time Deposits	July 5	628	625	655
Federal Reserve Banks				
Member Bank Reserve Balance	July 5	10,151	10,116	8,074
Money in Circulation	July 5	7,100	6,962	6,514
Gold Stock	July 5	16,136	16,093	12,967
Treasury Currency	July 5	2,880	2,879	2,715
Treasury Cash	July 5	2,577	2,559	2,303
Excess Reserves	July 5	4,290	4,240	2,990

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	June	282.0	182.5	301.1
New Capital	June	30.2	21.0	202.3
Refunding	June	251.8	161.5	98.8

COMMENT

A sharp increase in loans to commerce, industry and agriculture featured the latest weekly statement of **New York City Member Banks.** Total loans and investments showed a net increase of $3,000,000. The increase, however, was made possible by a rise of $28,000,000 in loans of which $21,000,000 were of the commercial classification. Total commercial loans of New York banks now amount to $1,405,000,000, a new high since December 14, 1938. Outstanding loans to commerce, industry and agriculture are now $54,000,000 higher than last February and for several weeks have risen contra-seasonally. Local banks continue to add to their portfolio of long term Treasury bonds, but in the latest week a decline of $56,000,000 occurred in other securities, reflecting repayment of municipal obligations and retirement of Federal Loan bonds.

The amount of gold under earmark for foreign account increased $21,396,000, raising the total stock of earmarked gold to $1,150,000,000, a new high, according to the weekly gold statement of the **Federal Reserve Bank of New York.** Foreign banks of issue drew down their balances to the extent of $53,000,000, a move made necessary to support exchanges which were under the influence of nervous capital movement toward the United States. Foreign bank deposits in member banks rose $20,000,000 reflecting the accumulation of dollars by foreign interests.

New security offerings in June reached a new high record for over two years. Hopeful as this trend is, it is necessarily modified somewhat by the fact that most of the new corporate financing was for refunding purposes, and also by the fact that over half of the total went into municipal offerings. From all indications, and barring serious repercussions in the European political scene, the volume of new financing promises to record further important gains in the months ahead.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	July 1	July 8
316 COMBINED AVERAGE	73.1	50.7	54.5	56.0
5 Agricultural Implements	119.4	81.4	89.9	91.2
6 Amusements	43.2	26.8	30.8	31.6
15 Automobile Accessories	92.3	55.2	61.8	63.7
12 Automobiles	12.8	8.1	8.6	8.6
11 Aviation (1927 Cl.—100)	182.7	128.2	133.0	138.1
3 Baking (1926 Cl.—100)	15.4	11.5	12.6	13.3
3 Business Machines	183.9	118.0	118.0L	122.0
9 Chemicals	168.2	123.7	130.7	131.7
20 Construction	47.5	27.7	29.2	29.7
5 Containers	242.6	165.0	178.3	183.2
9 Copper & Brass	118.6	71.2	76.9	91.9
2 Dairy Products	30.3	23.6	28.2	29.4
8 Department Stores	23.9	16.5	19.2	19.6
7 Drugs & Toilet Articles	53.5	40.4	42.0	43.7
2 Finance Companies	312.0	219.4	242.1	251.2
7 Food Brands	89.9	69.1	84.3	86.0
3 Food Stores	45.2	33.3	42.9	44.3
4 Furniture & Floor Covering	72.1	47.1	51.7	54.8
3 Gold Mining	1301.2	1123.7	1145.2	1196.7
6 Investment Trusts	28.1	19.2	20.7	21.0
4 Liquor (1932 Cl.—100)	193.1	143.0	143.0x	148.0
9 Machinery	129.0	83.3	89.3	91.0

No. of Issues (1925 Close—100)	1939 Indexes High	Low	July 1	July 8
316 COMBINED AVERAGE	73.1	50.7	54.5	56.0
2 Mail Order	87.4	69.2	83.0	83.4
4 Meat Packing	52.3	43.2	43.6	44.2
14 Metals (non-Ferrous)	173.6	122.0	125.7	130.8
2 Paper	13.5	7.5	7.9	8.1
24 Petroleum	100.9	76.6	77.8	78.5
18 Public Utilities	62.6	44.9	49.8	50.4
4 Radio (1927 Cl.—100)	17.0	11.6	12.2	12.2
9 Railroad Equipment	61.6	33.7	36.4	37.6
22 Railroads	18.1	10.9	11.0	11.3
2 Realty	7.9	2.7	2.7R	2.7
2 Shipbuilding	82.7	45.1	48.3	56.8
13 Steel & Iron	99.0	60.4	61.2	63.6
2 Sugar	20.1	13.3	15.4	15.9
2 Sulphur	153.2	113.0	113.0L	115.5
3 Telephone & Telegraph	52.7	40.3	40.3x	42.2
4 Textiles	45.0	27.4	35.1	36.7
4 Tires & Rubber	20.0	13.0	14.6	14.9
4 Tobacco	85.9	76.2	83.4	84.3
4 Traction	36.9	21.9	32.9	33.9
4 Variety Stores	244.0	189.3	225.6	226.3
20 Unclassified (1938 Cl.—100)	100.8	73.1	79.4	82.6

x—New LOW this year. L—New LOW since 1937. R—New LOW record since 1929.

Commercial Credit Co.

(*Continued from page 345*)

company has sought to reduce its major dependence upon the automobile industry through diversification of its financing activities in other fields. Although notable progress has been made in that direction, financing of retail sales of automobiles continues to be the main source of the company's revenues and earnings. At the end of last year, some 48% of receivables represented retail motor notes, 14.4% wholesale automobile liens, 22.1% industrial liens, 7.9% open accounts notes and 7.2% factory accounts. Late in 1938, the company's activities in the "open accounts" field were further extended by the acquisition of Manufacturers Finance Corp. The company confines its financing activities exclusively to durable goods, operating almost entirely through dealers.

Although the established finance companies in recent years have been meeting increasing competition from new factors in this field, chiefly banks hard pressed to employ surplus funds profitably, there is as yet no conclusive evidence that Commercial Credit Co.'s position has been seriously impaired. Wider variations in year-to-year earnings are likely to be the rule rather than an exception, which fluctuations may be attributed as much to changes in the general business volume as to encroaching competition.

Among the company's accounts with automobile manufacturers are included that of Chrysler Corp. Thus far in the current year, Chrysler Corp. has accounted for nearly 27% of the total retail sales of passenger cars and its gain in cars sold has been 60% over last year, while the industry as a whole, other than Chrysler Corp., has been limited to 34% gain. Extremely low interest rates should also contribute substantially to current earnings. As evidence of the low cost of borrowing, considerable significance attaches to the recent decision of the company to retire $35,000,000 2¾% debentures, presumably with funds borrowed at a lower rate of interest. It is also understood that the company has under consideration the

retirement of $30,000,000 3¼% debentures due 1951.

Last year, Commercial Credit reported earnings equal to $4.60 a share for the common stock and paid dividends totaling $4. First quarter operations this year resulted in a profit of $1,716,704, equivalent after dividends on the 4¼% preferred stock, to 86 cents a share on 1,842,009 shares of common stock. This compared with earnings equal to $1.48 a share in the March quarter of 1938. However, reflecting a substantial gain in purchased receivables in the second quarter, profits for the first six months promise to be comfortably in excess of $2 a share. Selling at 44, the shares are worthy of consideration for their high speculative yield—high probably because of the absence of dynamic qualities rather than reflecting serious doubt over the current earnings outlook.

What World Armament Means to Our Economy

(*Continued from page* 333)

First, European demand, not only for actual fighting equipment and the materials from which it is fabricated but also for all kinds of everyday staples, would probably be substantially increased. Second, our own preparedness program would no doubt be speeded up.

But what this would mean in the way of immediate orders for industry remains problematical. At the beginning of the last war, belligerent nations did not at once place an important volume of business in the United States as it was generally believed at the outset that the conflict would be of short duration. Thus, the first effect of the war on business was more bearish than otherwise and the trend of industrial production here was downward throughout almost all of 1914. Just before the close of the year, however, orders from abroad began to be placed in volume and the war boom of 1915 was under way.

While it is doubtful if this delay in foreign buying would occur under today's circumstances, there is now the additional consideration of neutrality legislation to take into account. At present writing, this question remains pretty well up in the air but if the Administration's recommendations are followed out by Congress, the "cash and carry" provisions included would permit of extensive trade with the principal European democracies. In any event, there would probably be considerable business in goods other than "arms, munitions and implements of war."

As the Trader Sees Today's Market

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yet that is not necessarily true.

The fully paid portfolio may contain several high leverage issues, due to move more widely than the averages in either direction. The margin account gets its leverage in a different but fully as effective way. If the sound securities in it appreciate, the owner's equity will increase a third faster because of the debit he is carrying. The debit may actually be useful in keeping the borrower alive to his stake in the market and ready to take immediate action, while the owner of the portfolio fully paid for may grow too comfortably confident. In fact, the account bearing the debit may be protected to considerable degree by stop-loss orders for the sole reason that the owner realizes his danger.

This is not an argument on the merits of a margin account as opposed to a cash account, nor is it intended to play down the advantages of leverage issues. The point to be made is that speculation can be conservatively managed, and investment can involve considerable speculative risk. Each trader must decide for himself how his own account is to be handled, but in order to do so logically he must avoid superficial appearances. He must look coldly for the realities of his situation before the market makes the answer evident. The chances are that most of us will find something we have been wrong in taking for granted—either an issue we rated highly merely because the market seemed to feel that way about it, or too great a concentration in a single vulnerable industry, or possibly a failure to make full use of opportunities up to the limit of what constitutes conservative speculations.

Present and Future Leaders in Automobile Accessories

(*Continued from page* 339)

Practically all of the major companies manufacturing parts and accessories supply automobile assemblers with original equipment, with some companies specializing in equipment and parts for which there is virtually no replacement demand. In that category are Bendix, Borg-Warner, Briggs Mfg., Bower Roller Bearing, Kelsey-Hayes Wheel, Libbey-Owens Ford, Motor Products, Spicer and L. A. Young Spring & Wire. Original equipment business accounts for about 65% of the revenues of Eaton Mfg.; 75% in the case of Electric Auto-Lite and Midland Steel Products, and 50% for Thompson Products.

The efforts of leading equipment manufacturers to expand their activities into other fields and beyond the influence of the automobile industry is a significant trend, but its significance lies mainly in what it portends for the future, rather than a factor of near-term importance. It must be conceded, however, that in the instance of several companies, revenues from non-automotive sources may account for as much as 50% of the total this year. Such may be the case with Borg-Warner which in recent years has introduced an extensive line of household equipment including electric refrigerators, stoves and washing machines. Briggs Mfg. has a complete line of plumbing ware, but it has only been recently that this division of the company's business has shown a profit and at least 90% of revenues are still obtained from automotive sales.

The boom in aircraft manufacture is benefiting a number of equipment manufacturers, including Bendix Aviation and Thompson Products, neither of which company now relies on the automobile industry for more than half of its business. Clark Equipment has broadened its scope to include a line of high-speed tools, gasoline haulage vehicles and a light-weight train for rapid transit systems. Budd Mfg. has also become a leading factor in the manufacture of light-weight, stainless steel railway trains and cars. Electric Storage Battery depends upon the

automobile industry only to the extent of 60% of its sales and is favored by a large replacement, as well as industrial demand.

In the case of several companies the introduction of new and potentially formidable competitive factors has raised considerable doubt as to their ability to recover their former earning power. Companies thus offected include Hayes Body, which has reported a deficit in each of the past ten years; Reynolds Spring and L. A. Young Spring & Wire, faced with increased competition from the new type "rubber foam" cushions and upholstery; and Motor Products, confronted with new competition from Briggs Mfg. following the failure of the proposed merger of these two companies to materialize.

Shifting competitive gains among the independents have been of scant significance, nor have they found noticeable reflection in the showing of equipment companies. **Competitive gains and losses among the Big Three, who account for 90% of new car business, however, have had more far-reaching effects. Chrysler has been obtaining a large share of the new car market, principally at the expense of Ford. This year Chrysler's sales have shown the largest percentage gain of any major automobile manufacturer. What this has meant to Electric Auto-Lite is indicated by the fact that the company in the first half of this year will earn more than for the full 1938 year, while topping the results in the first half of 1937. Chrysler accounts for about 50% of Electric Auto-Lite's business. Following the loss of nearly all its Ford business in 1929 Electric Auto-Lite had tough sledding for several years, and it was not until** the close tie-up with Chrysler was made that the company's earnings began to take a marked turn for the better. Briggs is another company which counts on Chrysler as its largest customer. In fact Chrysler business is largely offsetting Briggs' loss of some Ford body business following the latter company's policy of making a larger portion of its own bodies.

Throughout this discussion it has been only too apparent that the salient factors bearing on the prospects for automobile equipment manufacturers are all essentially speculative and subject to wide cyclical variations. If anything, these factors are likely to be more intensified in the case of individual com-

panies, subject to shifting contracts, competition, narrow profit margins and developments outside the realm of the automobile industry. Against these, however, are the considerations that most of the leading suppliers are conservatively capitalized, with common stock representing the entire equity, well fortified financially and favored by a promising near-term outlook. The prospect of substantially better, if not sustained, earnings appears sufficiently assured at this time to lend a measure of speculative attraction to the group.

Tapping New Sources of Recovery

(*Continued from page 324*)

reluctance of investors and of banks to lend.

The idea that there is a vast field for sound Government loans or Government-guaranteed loans has been rather effectively refuted in recent testimony before Senate committees by—of all people—several officials of New Deal administrative agencies! For instance, chances of adoption of the Mead bill, which would guarantee $1,000,000,000 of bank credit for small business men, appear to have been greatly dimmed, if not ended, by testimony of Jesse Jones, chairman of the Reconstruction Finance Corporation, before the Senate Banking and Currency Committee. Mr. Jones said this bill would not only fail to accomplish its purpose but would restrict channels of credit of other Government agencies from which small business men can now get loans. He added that his agency is now advancing loans to all deserving borrowers who could reasonably be expected to make repayment, that many loans secured by little but a gamble on the applicant's ability and character had been made—but that his agency is flooded with inquiries from people who think Government money is going to be given away.

Similarly, H. A. Gray, assistant P W A administrator, testified before the Senate Appropriations Comittee that: "Self-liquidating projects, as we see them now, are comparatively small in amount to have any construction program based on them."

In a recent report to Secretary of Commerce Hopkins, experts of this department advanced the following conclusion: "It seems clear that the field for sound unsecured loans is very restricted and that creation of facilities for this purpose would probably not result in any appreciable expansion in Government loans to business."

All of which foots up to the same old economic stalemate and the same old fruitless impasse between government and business. There are not many alternatives ahead of us: 1, We can go on pouring public money down assorted rat holes in the futile effort to buy a politically-managed capitalist recovery; 2, the Government could, but probably will not, change its policies and attitudes along orthodox-conservative lines; 3, the Government could completely subjugate and change the economic system; 4, the people could change the Government.

We need peace in America just as much as we need it in Europe—social peace, economic reconstruction, good will of Government toward business, good will of business toward Government. Until we get it America will not again march confidently forward. When we get it, as we will in time, the supply of capital and of bank credit will be no problem at all. As a nation, we have superabundance of money right now. What is lacking is normal rate of expenditure and investment of such money.

Meanwhile, we are in another—probably minor—upswing of the business cycle which, European developments permitting, could make things look pretty good for a period of months but which no rational mind can accept as representing even a partial approach to solution of the recovery-reemployment problem that has now been with us for the nearly ten years since the 1929 debacle.

Happening in Washington

(*Continued from page 331*)

Cost of production guarantee for farm prices; no chance.

Still in committees are a large number of important measures, and their failure to advance any further means that very few of them have much chance of enactment this session:

Lending program for "self-liquidating" projects, just proposed by Roosevelt, may be an exception, though parts of it will meet much opposition and may get dropped out.

Business credit plans now appear to have little chance of enactment this session.

The Stockholder's Guide

(*Continued from page 337*)

rious ways and picking one city as a place to get acquainted with the individuals making up its list of owners. In addition to improved stockholder relations and greater interest in the company, Monsanto gets the best sort of institutional advertising; it learns more about how to carry the program along with greater efficiency in the future. Other corporations are working along the same lines, quietly showing that big business is not iniquitous by laying their cards on the table before those who have a right to see them. Owners as well as prospective buyers of their stocks can never be enemies once these policies are adopted; and every business needs its friends these days.

Which Diesels are Ready to Show Profits?

(*Continued from page 335*)

tential market for automotive Diesels is indicated by the fact that there are about 4,500,000 trucks and buses in active service at the present time. Supposing these average about 100 horsepower, and if only one out of every hundred of them are converted to Diesel power over the next two years, it would mean annual sales of better than 2,000,000 of Diesel horsepower. This would be more than the estimated sales of all type Diesels last year.

Just how effectively this large market can be developed in the near future is conjectural, but leading manufacturers of high-speed Diesels, as well as manufacturers of trucks and commercial vehicles are overlooking no bets and such companies as Chrysler, Yellow Truck, Mack Trucks, White Motors and Ford either have Diesel trucks and busses in their regular line or are prepared to supply them on order.

Another field which lends itself to unit expansion is the small high-speed Diesel for industrial and private power plants. In 1938 General Motors equipped an entire plant for the production of a complete line of small Diesels, or "power packages." Previously General Motors had confined its Diesel activities to the heavier units and was ranked as largest producer of railroad Diesels. It is virtually certain that General Motors' management has investigated fully the possibilities of small Diesels and satisfied itself of the profitable possibilities in that direction before putting large sums of money into new plant facilities.

Up until the present time Diesels have experienced their greatest growth as power equipment for farm and industrial tractors. According to *Diesel Power,* total tractor installations over the past twenty years have amounted to 2,135,000 horsepower; general industry accounted for 1,893,475 horsepower; marine, 1,813,600; petroleum and pipe lines, 787,155; and public utility, 500,000.

In the field of heavy Diesels, any estimate of near term prospects is confronted with the baffling question of how soon anything resembling a genuine revival in the durable goods industries will materialize. Present conditions surrounding such important users of large Diesels as electric power companies, railroads, mines, quarries, petroleum companies and industrial plants and commercial buildings are such that this group of customers can hardly be expected to contribute much to the current prospect for Diesels. Marine installations, another important outlet, will probably be aided by the heavy shipbuilding program scheduled for completion over the next five years, although the present plans for an enlarged Navy do not appear to hold any considerable promise for Diesel manufacturers, except for auxiliary installations for lighting purposes and on submarines and other smaller craft.

In railroad operation, Diesels have fully established their worth and economy for use in switching engines. In the longer runs, however, Diesel installations have been confined chiefly to crack trains, as much for their publicity value as anything, although it must be admitted that Diesels as a means of railway motive

power have been successful to a point where competition against the steam locomotive has spurred manufacturers to innovate many new features and economies in this older source of power.

The Diesel industry entered 1939 with a substantial volume of new orders on its books, a considerable portion of which was received in the active fourth quarter of 1938. Since last November sales have been progressively higher and the total of 650,000 horsepower sold in the first quarter was a gain of 75% over the same period a year ago. On the basis of this auspicious start, it is within the realm of possibility that total sales for all of 1939 will exceed 1937 and hit a new peak. Even if this prospect proves too optimistic, at least a substantial recovery in sales from last year is certain.

Yet the Diesel industry is not merely recovering from a slump—*it is growing*—and rising volume spells proportionately larger profits. The industry has proved itself to be more than a fair-weather proposition. With the benefit of real business recovery, it might well go places in a big way.

General Foods versus General Motors

(*Continued from page 347*)

A repetition of this pattern seems altogether probable over the next business cycle for there has been no fundamental change in the cyclical aspects of either company's business. What has changed is the secular outlook of each. For it has not been many years since General Motors was a young and rapidly developing concern while General Foods' position was considered more or less static. If their positions have not yet been reversed, a reversal is at least a strong possibility within the next year or two as G.M. reaches maturity and G.F. takes a new lease on life.

There are, of course, a number of factors which could postpone or even forestall such a development. If, for example, Motors should begin to show marked competitive gains versus the automotive industry as a whole, as Chrysler is now doing or as G.M.'s own Buick division has been doing over the past several years; or if General Foods, which has not yet spent any considerable sums in advertising its Birds Eye brands, should decide to plow back into promotion further profit increments in this division—then G.M.'s maturity or G.F.'s renascence might well be delayed. But at this writing there is little to suggest that this will be the case.

Which to hold now? It depends of course on what you're after. If it can be assumed that current business irregularity, like that of 1934, is simply a passing phase in a major recovery cycle and that a period of more or less sustained prosperity lies ahead, then General Motors will in all likelihood prove the better appreciation vehicle over the intermediate term. If, on the other hand, a conservative position is deemed desirable and if the investor is willing to accept well maintained income and longer range growth potentialities in lieu of possibilities for cyclical gain, then General Foods is his stock.

Answers to Inquiries

(*Continued from page 351*)

Worthington Pump cannot be regarded as other than highly speculative, although it will doubtless respond marketwise to fluctuations in sales, even though possibly of temporary significance. A recapitalization was effected in 1937 whereby large arrearages on the old class "A" and "B" preferred stocks were eliminated through an exchange offer for new prior preferred. Only a small number of the old preferred shares remain outstanding, but because of unprofitable operations, the company found it necessary to discontinue payments on the new prior preferred stocks since September, 1938. Working capital of the company has been sharply reduced during recent years and at the close of last year bank loans were outstanding in the amount of $3,400,000. While the immediate outlook leaves much to be desired, the company's earnings would unquestionably increase sharply during a period of industrial revival and with indications pointing to some moderate improvement in operations this year, we are inclined to feel that the common stock merits retention here as a price speculation.

Beatrice Creamery Co.

What do you think of the possibilities for price appreciation and increased dividends of the common shares of Beatrice Creamery? Will this company benefit by the declining level of milk prices? Would you add to 50 shares which cost me 25 in 1937?—K. A., Albany, N. Y.

Earnings of Beatrice Creamery Co. have fluctuated rather widely in recent years, although the trend has been generally upward since 1933 and for the fiscal year ended February 28, 1939, earnings equalled $3.01 a share on the common stock. Sales of the organization tend to vary but slightly from year to year, although for the industry as a whole any curtailment of public purchasing power exercises a restraining influence upon profits because of the virtually fixed output of the basic raw material —milk. Thus, in certain years the company has had rather heavy inventory losses on butter, particularly, while ice cream sales, also an important profit determinant, vary with weather conditions and public purchasing power. By and large, however, indications are that earnings for the fiscal year to end February 28, next, will vary but slightly from last year, with the strong possibility of some betterment due to continued low milk prices and expanding demand for such items as ice cream, cheese and butter. For the quarter ended May 31, 1939, a net profit, equal, after preferred requirements, to 60 cents a share on the common stock, compared with 26 cents a share a year before and net sales increased to $14,178,809, from $13,874,930. Finances of the company are strong and with capitalization conservative, little question would seem to exist as to continued dividends at the regular $1 annual rate supplemented by extras from time to time. Total distributions last year, including 50 cents extra, amounted to $1.50 per share, while an extra of 75 cents has been declared this year to date. Considering the yield indicated on the stock at present prices of around 22 and the possibility that earnings will increase moderately, at least, during the current year, the stock is believed to offer attraction at these levels.

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